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Louisiana Citizens Property Insurance Corporation

Financial Statements and Supplementary Information

December 31, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Louisiana Citizens Property Insurance Corporation
Metairie, Louisiana

We have audited the accompanying financial statements of the business-type activities of Louisiana Citizens Property Insurance Corporation ("the Company"), a component unit of the State of Louisiana, as of and for the year ended December 31, 2009, which comprises the Company's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the extent of certain deficiencies in internal controls, we were unable to satisfy ourselves as to the adequacy of the cut-off of beginning balances. The beginning balances as of January 1, 2009, materially affect the determination of the financial position and cash flows for the year ended December 31, 2009.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended December 31, 2009.

In our opinion, based on our audit, the statement of net assets referred to above present fairly, in all material respects, the net assets of the business-type activities of the Company, as of December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2010, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Carr, Riggs & Ingram, LLC

New Orleans, Louisiana
September 22, 2010

Company Background

This discussion provides an assessment by management of the financial position, results of operations, cash flow and liquidity for Louisiana Citizens Property Insurance Corporation (LCPIC). LCPIC was established in 2003 by the Louisiana legislature as a nonprofit corporation to operate residual market insurance plans effective January 1, 2004. The objective of LCPIC is to provide essential property insurance for residential and commercial property applicants who are unable to procure insurance through the voluntary market. LCPIC is the successor to the program established by Act 424 of the 1992 Regular Legislative Session designated as the "Fair Access to Insurance Requirements Plan" or otherwise known as the Louisiana Joint Reinsurance Plan (FAIR Plan) and the Louisiana Insurance Underwriting Plan (Coastal Plan). Information presented in this discussion supplements LCPIC's 2009 Annual Financial Statements.

Major events occurring in 2009 for LCPIC were:

- The auction rate securities ($300 million) related to the assessment revenue bonds were converted to fixed interest rate bonds during the second quarter of 2009.
- In 2009, LCPIC began programming efforts for a new policy and claim management system.
- LCPIC completed a third round of depopulation in 2009 transferring 3,400 policies and $900 million of exposure to the private insurance market.
- There were no significant catastrophes that occurred in 2009.

Financial Position

LCPIC's financial position (GAAP Basis) at December 31 was as follows:

Statement of Net Assets (thousands)	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 105,073	$ 23,053
Receivables (net, allowance for doubtful accounts)	74,052	181,786
Deferred acquisition costs	10,840	11,238
Other current assets	255	10,354
Total current assets	190,220	226,431
NONCURRENT ASSETS:		
Restricted assets with bond trustee	183,316	190,307
Capital assets, net of accumulated depreciation	4,178	5,161
Other noncurrent assets	48,417	36,295
Total noncurrent liabilities	235,911	231,763
Total assets	$ 426,131	$ 458,194

Statement of Net Assets (thousands)		2009		2008
LIABILITIES				
CURRENT LIABILITIES:				
Unpaid loss and loss adjustment expenses	$	213,645	$	251,891
Unearned and advanced premiums		115,473		119,028
Unearned tax exempt surcharge		3,289		4,010
Accrued expenses and interest		9,223		8,936
Other current liabilities				
Current portion of long-term liabilities:		2,273		14,690
Bonds payable (including unamoritzed costs)		36,030		48,150
Total current liabilities		379,933		446,705
NONCURRENT LIABILITIES:				
Bonds payable (including unamortized costs)		914,577		955,417
Postretirement benefits		947		-
Total noncurrent liabilities		915,524		955,417
Total liabilities		1,295,457		1,402,122
NET ASSETS				
Invested in capital assets, net of related debt		4,178		5,161
Restricted for debt service		123,288		74,322
Unrestricted		(996,792)		(1,023,411)
Total net assets		(869,326)		(943,928)
Total liabilities and net assets	$	426,131	$	458,194

Assets
Total assets decreased by $32.1 million (7%) in 2009 as compared to 2008 due the reasons described below.

Included in the decrease in total assets was an increase in cash and cash equivalents. Cash increased by $82.0 million (356%) in 2009 due to cash collections for reinsurance losses and a decrease in payments for storm related losses and expenses.

The $107.7 million decrease in receivables is primarily due to a decrease in reinsurance loss receivables in 2009 as compared to 2008. The reinsurance loss receivables decreased by $107.0 million in 2009 compared to 2008 because the majority of claims from Hurricanes Gustav and Rita were settled in 2008 and recovered through reinsurance in 2009.

The $10.1 million decrease in other current assets is due to the decrease in prepaid reinsurance premiums in 2009 as compared to 2008. A 2009 reinsurance premium installment of $10.3 million was due on January 1, 2009, which was a banking holiday. LCPIC elected to pay the installment on December 31, 2008.

The restricted assets with bond trustee are entirely related to the assessment revenue bond obligations issued in 2006 to pay Hurricane Katrina losses. These assets are money market securities and repurchase agreement securities, both held by the bond custodian, Regions Bank. The restricted assets with bond trustee decreased by $7.0 million (4%) in 2009, primarily due to payment of bond debt service costs.

Other noncurrent assets consist of funds held in trust and bond issuance costs. The $12.1 million increase in 2009 as compared to 2008 in other noncurrent assets is primarily due to the increase of funds held in trust. In the class action suit, *Orrill v. Louisiana Citizens Property Insurance Corporation*, LCPIC entered into a preliminary class action settlement. The settlement required the maximum settlement amount of $35 million to be deposited with the court trustee. The final estimate for the settlement was $18 million. In December, 2008 LCPIC recorded $18 million as an incurred expense and set up a receivable for $17 million. This settlement was overturned on April 19, 2010 and LCPIC is appealing this action. Due to the uncertain nature of the final outcome, and with approval of LCPICs' audit firm, LCPIC has classified the entire $35 million as a settlement loss reserve and receivable for the financial statement period ending December 31, 2009.

Liabilities

Total liabilities decreased by $106.7 million (8%) in 2009 as compared to 2008 primarily due to the reasons described below.

Activity with respect to gross unpaid losses and LAE for the last two years is displayed below:

Losses and LAE (thousand)		**2009**		**2008**
Unpaid losses and LAE at beginning of year	$	251,891	$	405,039
Losses and LAE incurred in current year:				
For current year losses and LAE		48,743		417,221
For prior year losses and D&CC expenses		85,847		(84,638)
For prior year A&O expenses		(4,384)		(33,299)
Current year service provider fees		(5,302)		6,549
Income statement amounts		124,904		305,833
Losses and LAE paid in current year:				
For current year losses and LAE		(32,435)		(314,400)
For prior year losses and LAE		(130,715)		(144,581)
Underwriting exhibit paid amounts				
Unpaid losses and LAE at end of year		(163,150)		(458,981)
Unpaid losses and LAE at end of year	$	213,645	$	251,891

Unpaid losses and LAE decreased $38.2 million (15%) in 2009 as compared to 2008. 2009 losses and LAE incurred are $368.5 million lower in 2009 compared to 2008 because there were no major storms in 2009. Adverse development for prior year incurred losses, LAE, and current year service provider fees was $76.2 million ($85,846 - $4,384 - $5,301). An additional $73 million bulk loss reserve for the 2005 class action lawsuits established by LCPIC's management was the principle driver of this adverse development. A decrease in the total losses and LAE paid of $295.8 million in 2009 as compared to 2008, is because the majority of Hurricanes Gustav and Ike claims were settled in 2008.

Unpaid losses and LAE are stated as LCPIC's estimate of the ultimate cost, excluding reinsurance, of settling all incurred but unpaid claims. Unpaid losses and loss adjustment expenses are not discounted and no estimate for salvage and subrogation is applied as a reduction to the unpaid losses. The estimate for unpaid losses and loss adjustment expenses is closely monitored and adjusted for changes in economic, social, judicial and legislative conditions, as well as historical trends. LCPIC uses various development modeling techniques to assist in the evaluation of its reserves under the direction of its chief actuary.

Management believes that the loss reserves are adequate, but establishing reserves is a judgmental and inherently uncertain process. It is therefore possible that as conditions and experience develops, reserve adjustments may be required in the future.

Other current liabilities consist of payables for LCPIC's depopulation program, pension liability, payable for reinsurance premiums, and other payroll related liabilities. The $12.4 million decrease in the other current liabilities in 2009 as compared to 2008, is primarily due to the decrease in the payable for reinsurance premiums. In 2008, a reinsurance reinstatement premium was due after Hurricane Gustav and additional reinsurance premium became payable at the end of 2008. In comparison, no reinstatement premium was paid or payable at the end of 2009.

The combined current and noncurrent bonds payable decreased by $53.0 in 2009 as compared to 2008 primarily due to the assessment revenue bond principal paid in 2009.

Net Assets
Total net assets increased by $74.6 million in 2009 as compared to 2008.

The primary reasons for the increase in total net assets were:

1) Net income from operations in 2009 of $18.0 million.
2) Emergency assessment income exceeded debt service costs on long-term debt obligations by $47.0 million.
3) Tax exempt surcharge collected on LCPIC policies in 2009 was $7.6 million.

Results of Operations

LCPIC's operating results (GAAP Basis) are presented in the following table.

Statement of Revenues, Expenses, and Changes in Fund Net Assets (thousands)		2009		2008
OPERATING REVENUE:				
Net premiums earned	$	169,372	$	191,826
Finance and service charges		3,356		4,312
Total operating revenues		172,728		196,138
OPERATING EXPENSES:				
Loss and LAE incurred		113,557		196,278
Underwriting expenses		41,597		42,071
Total operating expenses		155,154		238,349
Operating income (loss)		17,574		(42,211)
NON-OPERATING REVENUES (EXPENSES):				
Interest expense		(65,098)		(59,912)
Emergency assessment income		112,507		103,646
Tax exempt surcharge income		7,556		8,471
Other revenue		2,063		8,963
Total non-operating revenues (expenses)		57,028		61,168
Change in Net Assets		74,602		18,957
Net assets at beginning of year		(943,928)		(962,885)
Net assets at end of year	$	(869,326)	$	(943,928)

Change in net assets increased $55.6 million in 2009 as compared to 2008 due to the reasons described below.

Partially offsetting the increase in net assets was the decrease in net premiums earned. Premiums earned decreased $22.5 million. Premiums earned decreased due to fewer policies written in 2009 as compared 2008. LCPIC's depopulation program was the major driver of the reduction of premiums earned in 2009 as compared 2008.

The loss and LAE incurred decreased $82.7 million (35%) due to the no catastrophe storms in 2009 as compared to 2008.

Cash Flow and Liquidity

Cash Flow

Sources of cash include proceeds from policyholders, principally, premiums and emergency assessments collected, and amounts received from restricted investments. Primary uses of cash include cash payments for loss and LAE, cash payments for underwriting activities, and principal and interest paid on debt.

The other cash flow from non-capital financing activities is primarily assessment collections less principal and interest paid on Katrina bonds.

The purchases of investment securities and the proceeds from the sale of investment securities under cash flows from investing activities relate to cash and investments held by the Trustee for the repayment of the Katrina bonds.

Liquidity

All liquid funds held by LCPIC are kept in interest bearing commercial bank accounts that are 100% collateralized.

In 2005, LCPIC did not have sufficient funds to pay 80,000 claims resulting from Hurricanes Katrina and Rita. LCPIC borrowed $978.2 million, of which $678.2 million were fixed rate bonds and $300.0 million were variable auction rate bonds. During the second quarter of 2009, LCPIC elected to convert the auction rate bonds to fixed interest rate bonds. The debt service of these bonds is paid through emergency assessments on property insurance policies written in the State of Louisiana. The emergency assessments are remitted quarterly to the bond trustee.

In addition to policyholder premiums, LCPIC has a much broader range of resources available to pay losses and repay debt obligations than does a typical insurer. LCPIC can institute a regular assessment on the state insurance industry of up to 10% for deficits each year, and an emergency assessment of up to 10% on homeowners of the State of Louisiana per storm event to pay debt incurred for named storms. LCPIC uses reinsurance to mitigate storm losses and the possibility of assessments.

On August 12, 2010 LCPIC successfully negotiated a two year $50 million line of credit from Regions bank. The LOC was obtained for an initiation fee of $140,000 with interest fees on amounts utilized of LIBOR plus 240 basis points for the first 90 days and LIBOR plus 275 basis points for 90 – 365 days of utilization. The line of credit was obtained to increase liquidity in the event of a major storm. As of the date of this report, the Company has not drawn upon the line of credit.

Pending Litigation

There are approximately 2,488 open litigation matters against LCPIC. Approximately 74% of these matters are first-party suits related to Hurricanes Katrina and Rita.

The balance of the litigated matters are related to Hurricanes Gustav and Ike, fire losses, third-party bodily injury claims, subrogation matters or examinations under oath of insured's with questionable coverage claims.

LCPIC is also a defendant in four class action suits resulting from Hurricanes Katrina and Rita:

- *Orrill v. Louisiana Citizens Property Insurance Corporation*, LCPIC entered into a preliminary class action settlement. The settlement required the maximum settlement amount of $35 million to be deposited with the court trustee. The final estimate for the settlement was $18 million. In December, 2008 LCPIC recorded $18 million as an incurred expense and set up a receivable for $17 million. This settlement was overturned on April 19, 2010 and LCPIC is appealing this action. This suit is also referred to in the assets discussion and analysis on page 3.

- *Press v. Louisiana Citizens Property Insurance Corporation*. A settlement of $23 million was reached and subsequently paid on May 26, 2010. This suit involved contractor overhead and profit for Hurricanes Katrina and Rita claims.

- *Thibodeaux v. Louisiana Citizens Property Insurance Corporation*. The Plaintiffs in this suit allege that LCPIC failed to include the $65.00 application fee on its declaration page for all new policies. Plaintiffs seek return of the $65.00 fee for all affected policyholders. This matter was certified as a class action by the court on February 17, 2009 and LCPIC is before the Supreme Court of Louisiana on writs asking that the certification be overturned. In addition to the issues related to certification, there are a number of legal issues related to the merits that will need to be addressed by the court. The resolution of any of these issues could result in this case being dismissed as a whole. LCPIC does not anticipate a significant judgment in this matter.

- *Oubre v. Louisiana Citizens Property Insurance Corporation*. The plaintiffs in this suit allege that LCPIC failed to timely initiate loss adjustment as required by Louisiana statutory law, thus exposing LCPIC to mandatory penalties in the amount of $5,000.00. This matter was certified as a class action. Class certification has been upheld by the Court of Appeal. LCPIC received an adverse decision on a partial motion for summary which resulted in a $92.8 million judgment. LCPIC has appealed the judgment and in August 2009, paid plaintiffs' attorneys $6 million to avoid filing an appeal bond. The matter is now pending before the 5th Circuit, awaiting a date for oral argument. LCPIC has a realistic belief that the judgment will be overturned or the case settled for an amount significantly less than $92.8 million, however, LCPIC has reserved the maximum judgment amount on its balance sheet.

LCPIC has reserves in its Balance Sheet that are deemed to be sufficient to cover the expected outcome of all class action suits. These matters are being vigorously defended by nine outside law firms.

Future Plans

LCPIC has a reinsurance program that provides catastrophe coverage for 95% of $400.0 million after a $100.0 million retention that expires on June 1, 2010. LCPIC has negotiated a new reinsurance program for the 2010 storm season with the same coverage limit and retention.

As a result of multiple issues, LCPIC's policy and claim management system was reviewed and a decision was made to purchase a new policy and claim management system. An request for proposal was prepared and released in the spring of 2008 and a contract for a new policy and claim management system was awarded in the first quarter of 2009. LCPIC is currently implementing the new system and will retire the existing policy and claim management system.

To the extent that the above comments about future plans constitute forward-looking statements, these statements are not guaranties of future performance. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about LCPIC, economic and market factors, judicial rulings and the insurance industry, among other things. Actual events may differ materially from those expressed in forward-looking statements.

Louisiana Citizens Property Insurance Corporation

Statement of Net Assets

December 31, 2009	
Assets	
Current assets:	
Cash and short-term investments	$ 105,072,613
Premium receivables and agent's balances, net	18,533,915
Reinsurance receivable	28,561,066
Deferred acquisition costs	10,840,186
Emergency assessments receivables	23,350,728
Other assets	3,861,461
Total current assets	190,219,969
Noncurrent assets:	
Restricted investment with bond trustee	183,315,694
Assets held in trust	35,000,000
Bond issue costs, net	13,417,297
Capital assets	4,178,491
Total noncurrent assets	235,911,482
Total assets	$ 426,131,451
Liabilities and net assets	
Current liabilities:	
Loss reserves	$ 197,306,066
Loss adjustment expense reserves	16,339,140
Unearned premiums	115,473,444
Special assessment revenue bonds - current portion	36,030,000
Unearned tax exempt surcharge	3,289,374
Commissions payable to agents	1,959,331
Taxes, licenses, and fees due or accrued	5,099,508
Accrued bond interest	4,123,786
Other liabilities	312,417
Total current liabilities	379,933,066
Noncurrent liabilities:	
Special assessment revenue bonds	914,576,693
Postretirement benefits	947,337
Total noncurrent liabilities	915,524,030
Total liabilities	1,295,457,096
Commitments and contingencies (Note 14)	
Net assets	
Invested in capital assets, net of related debt	4,178,491
Funds restricted for debt service	123,288,463
Unrestricted	(996,792,599)
Total net assets	(869,325,645)
Total liabilities and net assets	$ 426,131,451

See notes to financial statements.

Louisiana Citizens Property Insurance Corporation

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended December 31, 2009	
Operating revenues	
Premiums earned	$ 228,582,202
Premiums ceded	(55,854,664)
Operating Revenues	172,727,538
Operating expenses	
Losses incurred and LAE	113,557,011
Commissions and brokerage	25,753,501
Service provider fees	4,969,895
Salary and related items	2,119,909
Boards, bureaus and associations	2,094,754
Equipement, depreciation and repairs & maintenance	1,703,437
Taxes, licenses and fees	1,487,636
Employee benefits	1,053,888
General office	731,254
Other underwriting expenses	1,683,302
Total losses and underwriting expenses	155,154,587
Operating income	17,572,951
Nonoperating revenue (expense)	
Interest income	408,572
Other income	97,488
Interest expense	(65,506,432)
Investment income	1,719,894
Emergency assessment income	112,506,532
Excess regular assessment recoupments	246,155
Tax exempt surcharge	7,556,410
Total nonoperating revenues	57,028,619
Change in net assets	74,601,570
Net assets, beginning of year	(943,927,215)
Net assets, end of year	$ (869,325,645)

See notes to financial statements.

Louisiana Citizens Property Insurance Corporation

Statement of Cash Flows

Year ended December 31, 2009	
Operating activities	
Premiums collected	**$ 169,683,048**
Investment income received	**408,571**
Finance and service charges	**3,355,800**
Other receipts	**97,312**
Losses paid	**(40,218,556)**
Loss adjustments paid	**(23,116,957)**
Underwriting expense paid	**(40,145,715)**
Net cash provided by operating activities	**70,063,503**
Noncapital financing activities	
Emergency assessments received	**109,221,219**
Regular assessments received	**246,155**
Market equalization charges received	**166**
Tax exempt surcharge received	**6,835,806**
Amounts received from bond trustee	**(41,158,466)**
Interest paid on capital debt	**(63,164,574)**
Net cash provided by noncapital financing activities	**11,980,306**
Capital financing activities	
Purchase of capital assets	**(1,748,605)**
Net cash used in capital financing activities	**(1,748,605)**
Investing activities	
Investment income received	**1,724,824**
Net cash used in investing activities	**1,724,824**
Net increase in cash and short-term investments	**82,020,028**
Cash and short-term investments, beginning of year	**23,052,585**
Cash and short-term investments, end of year	**$ 105,072,613**

See notes to financial statements.

Louisiana Citizens Property Insurance Corporation

Statement of Cash Flows

Year ended December 31, 2009	
Reconciliation of operating income to net cash used in operating activities	
Operating income	$ 17,572,951
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation expense	2,731,416
Changes in net assets and liabilities	
Decrease (increase) in:	
Premiums receivable and agents' balances	3,866,192
Reinsurance recoverables	47,003,359
Recoverables from takeout companies	(18,610)
Deferred policy acquisition costs	397,992
Funds held in trust	(20,000,000)
Prepaid reinsurance premiums	10,305,419
Other current assets	7,379,805
Increase (decrease) in:	
Upaid losses and loss adjustment expenses	23,742,627
Advance premiums	425,095
Unearned premiums	(3,979,974)
Servicing fees payable	(5,927,354)
Accrued taxes, licenses, fees & other expenses	1,494,964
Commissions payable to agents	(2,263,268)
Takeout program liabilities	(1,939,908)
Reinsurance premiums payable	(11,698,106)
Other current liabilities	970,903
Net cash provided by operating activities	$ 70,063,503

See notes to financial statements.

NOTE 1 – ORGANIZATION AND FINANCIAL STATEMENT PRESENTATION

Louisiana Citizens Property Insurance Corporation (the "Company") is a component unit of the State of Louisiana. The Company's principal business activity is to operate insurance plans which provide property insurance for residential and commercial property, solely for applicants who are in good faith entitled, but are unable to procure insurance through the voluntary market. Louisiana Citizens Property Insurance Corporation was created in accordance with provisions of Louisiana Revised Statute (LRS) 22:2293 and began operations on January 1, 2004. The Company operates solely in Louisiana. The Company operates residual market insurance programs designated as the Coastal Plan and the Fair Access to Insurance Requirements Plan (FAIR Plan). The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway and the FAIR Plan is for property insurance above the Intracoastal Waterway.

The Company is governed by a board of directors consisting of fifteen members, who serve without compensation. The Board consists of the Commissioner of the Department of Insurance, the State Treasurer, the chairman of the House Committee on Insurance, the chairman of the Senate Committee on Insurance or their designees, six representatives appointed by the Governor, two members appointed by the Commissioner of the Louisiana Department of Insurance, and three members appointed by the Governor.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. Application of these criteria determines potential component units for which the primary government is financially accountable and the organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the Company is a component unit of the State of Louisiana and its financial activity is reported in the state's Comprehensive Annual Financial Report by discrete presentation.

The financial statements presented herein relate solely to the financial position and results of operations of the Company and are not intended to present the financial position of the State of Louisiana or the results of its operations or its cash flow.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and practices of the Company conform to accounting principles generally accepted in the United States applicable to a proprietary fund of a government. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Company applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Company has also elected to apply all FASB statements and interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 34 established standards for financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires net assets to be classified and reported in three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

> ***Invested in capital assets, net of related debt*** – this component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net assets component as the unspent proceeds. As of December 31, 2009, the Company did not have any outstanding debt that was attributable to capital assets.
>
> ***Restricted net assets*** – this component of net assets includes assets subject to external constraints imposed by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
>
> ***Unrestricted net assets*** – this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In connection with the preparation of the financial statements, management of the Company evaluated subsequent events through September 22, 2010, which was the date the financial statements were available to be issued.

Measurement Focus

The financial statements of proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operations of the Company are included in the statement of net assets. The statement of cash flows provides information about how the Company finances and meets the cash flow needs of its activities.

Cash and Short-Term Investments

For the purpose of reporting cash flows, cash and short-term investments include all liquid investments with a maturity of one year or less when purchased. Short-term investments are stated at market, which approximates fair value.

Deferred Policy Acquisition Costs

Costs which vary directly with the production of new, renewing and servicing an insurance policy such as net agent commissions, servicing company fees and other taxes and fees (see Note 8) are deferred and recognized over the term of the related policy and is reported within underwritten expenses. Amortization of deferred policy acquisition costs recognized for the year ended December 31, 2009 was approximately $398,000.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

The Company's capital assets include items such as furniture, office equipment and electronic data processing equipment (EDP). The Company has a capitalization policy whereby thresholds are applied to determine if the asset should be capitalized or expensed. All movable property, not including computer software, over $5,000 is capitalized based upon a variable useful life depending on the descriptive category for which that property meets. Office furniture and fixtures are capitalized and depreciated over a 10 year life. Computers and peripheral equipment such as hard drives, printer, monitor, keyboards and such are capitalized and depreciated over a five year life. Office machinery and equipment other than computers are capitalized and depreciated over a six year life. All computer software purchased or developed for internal use over $1,000,000 is capitalized and amortized over three years. The straight-line depreciation method is used for the depreciation of capital assets and the assets are assumed to have no salvage value and a full year of depreciation will be taken in the year the asset is placed into service. Depreciation expense for capital assets in 2009 approximated $2,731,000.

Depopulation

The Company is required to undertake a depopulation effort annually per Louisiana state statute LARS 22:2314. The Company accounts for premiums of depopulated policies as a reduction of direct premiums written. Losses and other costs associated with depopulated policies are removed from the financial statements.

Loss Reserves and Loss Adjustment Expense Reserves

The liabilities for losses and loss adjustment expenses include an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current earnings.

Premiums

Premiums are recorded as earned on a daily pro rata basis over the policy period. The portion of premiums not earned at the end of the period is recorded as unearned premiums.

Premiums receivable includes amounts due from policyholders for billed premiums. Billings are calculated using the estimated annual premiums for each policy and are paid either through an installment plan offered by the Company or in their entirety at the inception of the policy.

Assessments

In the event that the Governing Board of the Company determines that a deficit exists in either the Costal Plan or the FAIR Plan, the Company may levy a regular assessment for each affected Plan in order to remedy any deficit. All insurers who become authorized and then engage in writing property insurance within Louisiana shall participate in regular assessment of the Costal and FAIR Plans in the proportion that the net direct premium of such participant written in the State during the preceding calendar years bears to the aggregate net direct premiums written in the State by all insurers during the preceding calendar year as certified to the Governing Board by the Louisiana Insurance Rating Commission.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When the deficit incurred in a particular calendar year is not greater than ten percent of the aggregate state wide direct written premium for the subject lines of business for the prior calendar year, the entire deficit will be recovered through regular assessments. When the deficit incurred exceeds ten percent, the regular assessment may not exceed the greater of ten percent of the calendar year deficit, or ten percent of the aggregate statewide direct written premium for the subject lines of business for the prior calendar year. Any remaining deficit shall be recovered through an emergency assessment.

All persons who procure a policy of insurance of one or more subject lines of business from an insurer who becomes authorized and then engages in writing property insurance within Louisiana from the FAIR or Coastal Plans are subject to emergency assessment by the Company.

Upon determination by the Governing Board of the Company that a deficit exceeds the amount allowed to be recovered through regular assessment, the governing Board shall levy an emergency assessment for as many years as necessary to cover all deficits. The amount of emergency assessment levied in a particular year shall be a uniform percentage of that year's direct written premium for the subject lines of business. The total amount of emergency assessment levied in any calendar year will not exceed the greater of ten percent of the amount needed to cover the original deficit plus interest, fees, commissions, required reserves, and other costs associated with the financing of the original deficit, or ten percent of the aggregate state wide direct written premiums for subject lines of business and for all plan accounts of the Company for the prior year, plus interest, fees, commissions, required reserves, and other costs associated with financing the original deficit. To the extent the aggregate amount of the emergency assessment will not exceed the greater of either amount above, the governing Board shall impose an emergency assessment in the amount required by any applicable loan agreement, trust indenture or other financing agreement.

Reinsurance
Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on paid or unpaid losses are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Premiums ceded include catastrophe reinsurances purchases. At December 31, 2009, the Company had reinsurance recoverables on unpaid losses of $20,190,070 and reinsurance recoverables on paid losses of $8,370,996.

Bond Issue Cost
Bond issue cost are incurred in connection with acquiring bonds payable (see Note 7) and are deferred and amortized over the life of the bond agreements.

Income Taxes
The Company constitutes an integral part of the State of Louisiana and its income is exempt from federal income tax pursuant to Private Letter Ruling 160165-03 from the Internal Revenue Service. Obligations issued by the Company constitute obligations of the State of Louisiana within the meaning of section 103(c)(1) of the Internal Revenue Code.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates
The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Market Risk
The Company underwrites residential and commercial property insurance policies in the State of Louisiana through the Coastal Plan and the FAIR Plan. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Louisiana could have a significant impact on the Company's future financial position and results of operations.

The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway. The FAIR Plan is for property insurance above the Intracoastal Waterway. Therefore, severe storm activity in any of these areas or throughout the State of Louisiana could have a significant impact on the Company's future financial position and results of operations.

Unlike private insurers that are subject to liquidation in the event of insolvency, the Company is able (and statutorily required) to levy assessments in the event of a deficit in any or all of its accounts.

Stewardship, Compliance and Accountability
In accordance with state law, all uninsured deposits of the Company with financial institutions must be secured with acceptable collateral valued at the lower of cost or market or par. As of December 31, 2009, the Company's cash and cash equivalents were entirely insured or collateralized with securities held by its agent in the Company's name.

Deficiency in Net Assets
The Company reported a deficiency in net assets of $(869,325,645) at December 31, 2009, resulting primarily from losses on insured property caused by hurricanes Katrina and Rita during 2005. The Company plans to eliminate the deficit through emergency assessments on affected insurance companies and policy holders.

NOTE 3 – CASH & INVESTMENTS

Cash and Cash Equivalents
State statute authorizes the Company to invest in U.S. bonds, treasury notes, or certificates. The Company may also invest in direct repurchase agreements of any federal bank. The collateral for the agreement can only include securities as described above. The Company's cash and cash equivalents consisted of the following at December 31, 2009:

	Carrying Amount	Bank Balance
Demand deposits	$ 28,298,272	$ 30,026,039

NOTE 3 – CASH & INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of the failure of a financial institution, the Company will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Company does not have a formal policy for custodial credit risk. Under state law, deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. As of December 31, 2009, none of the Company's cash was exposed to custodial credit risk. These deposits were either secured by the pledge of securities owned by the fiscal agent bank or covered by the FDIC Transaction Account Guarantee Program.

Investments

The Company's investment objectives and guidelines are created to enable the Company to invest funds prudently for the benefit of the Company to provide reasonable risk characteristics while emphasizing safety of principal first, liquidity second and yield third. The consideration of sufficient short term funds in order to continue operations is paramount and during certain times sufficient liquidity should be maintained in order to meet peak demands which may be adjusted due to reinsurance coverage and other circumstances.

The Company is authorized to invest retained funds pursuant to the limitations set forth in Title 22 for insurers. As of December 31, 2009, the Company had investments with a fair value totaling $183,315,688.

Custodial Credit Risk

Per GASB Statement No. 40, custodial credit risk is defined as the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Company does not presently have a formal policy for custodial credit risk. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered with securities held by a financial institution or agent, and in the Company's name. Investments of approximately $30,026,039 were exposed to custodial risk as of December 31, 2009.

Interest Rate Risk

Per GASB Statement No. 40, interest rate risk is defined as the risk a government may face should interest rate variances adversely affect the fair value of investments. The Company does not presently have a formal policy that addresses interest rate risk. As of December 31, 2009, the Company is not exposed to interest rate risk due to the liquidity of its investments.

Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Company may be invested in direct United States Treasury Obligations, United States Government Agency Obligations, direct security repurchase and reverse repurchase agreements, time certificates of deposit, investment grade commercial paper, investment grade corporate notes and bonds, investment grade municipal bonds and money market funds consisting solely of securities otherwise eligible for investment. Where applicable, investments

NOTE 3 – CASH AND INVESTMENTS (Continued)

shall have a rating of 1 or 2 as determined by the Securities Valuation Office of the National Association of Insurance Commissioners. As of December 31, 2009, the Company had the following exposure to investment credit risk:

	Rating	Percentage
Treasury Obligations Mutual Fund	AAAM/Aaa	85%
Repurchase Agreement	Unrated	15%

The credit risk ratings listed above are issued upon standards set by Standards and Poor's or Moody's Ratings Services.

Concentration of Credit Risk
Per GASB Statement No. 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Company, shall not, except in the case of investments in or loans upon the security of general obligations of the government of the United States or of any state or territory of the United States, or the District of Columbia, have a single security that compromises more than 5 percent of the fair value of the Company's portfolio. The Company had the following investments that represent more than 5 percent of net investments as of December 31, 2009:

Issuer	Fair Value	Percentage
Treasury Obligations Mutual Funds	$ 155,017,422	85%
Demand Deposits	28,298,272	15%
	$ 183,315,694	

Foreign Currency Risk
Per GASB Statement No. 40, the foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment. The Company does not presently have a formal policy that addresses foreign currency risk. The Company's exposure to foreign currency risk is limited to investments in global or pooled non-U.S. equity mutual funds. The Company had no investments in global or pooled non-U.S. equity mutual funds at December 31, 2009.

NOTE 4 – ASSESSMENTS RECEIVABLE

Louisiana Revised Statute 22:2299-2300 provides that any insurer who engages in writing property insurance within the State shall become an assessable insurer in the Coastal Plan and FAIR Plan. In the event that the governing board of the Company determines that a deficit exists in either the Coastal Plan or the FAIR Plan, the Company may levy regular assessments against assessable insurers for each affected plan to help offset such deficit. Furthermore, assessable insurers are permitted to recoup all regular assessments from their policyholders by applying a surcharge to all policies. Any amounts recouped by the insurers in excess of amounts assessed are required to be forwarded to the Company. The Company did not execute a regular assessment in 2009.

NOTE 4 – ASSESSMENTS RECEIVABLE (Continued)

Upon a determination by the governing board that a deficit in a plan exceeds the amount that will be recovered through regular assessments, the governing board is authorized to levy, after verification by the Department of Insurance, emergency assessments for as many years as necessary to cover the deficit. The board determined that the 2005 plan year deficit exceeded the amounts levied under the 2005 regular assessment and has levied an emergency assessment beginning in 2007 of 3.6% of written premium and has approved a levy of 5.0% for 2008 and 2009. The assessments are collected by the insurers and remitted to the Company's bond trustee quarterly. The total of 2009 emergency assessments levied amounted to $112,506,532 of which $23,350,728 remained outstanding as of December 31, 2009.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Depreciable capital assets				
Electronic data processing equipment	$ 13,266,816	$ 1,547,578	$ (16,638)	$ **14,797,756**
Office equipment	611,586	217,665	-	**829,251**
Total depreciable assets	13,878,402	1,765,243	(16,638)	**15,627,007**
Less accumulated depreciation				
Electronic data processing equipment	(8,557,119)	(2,607,143)	-	**(11,164,262)**
Office equipment	(159,981)	(124,273)	-	**(284,254)**
Total accumulated depreciation	(8,717,100)	(2,731,416)	-	**(11,448,516)**
Capital assets, net	$ 5,161,302	$ (966,173)	$ (16,638)	$ **4,178,491**

NOTE 6 – LIABILITIES FOR LOSS AND LOSS ADJUSTMENT EXPENSES

Activity in the liabilities for loss and loss adjustment expenses is summarized as follows:

Year ended December 31, 2009	
Balance at January 1,	$ 251,891,269
Less reinsurance recoverables	76,227,692
Net balance at January 1,	175,663,577
Incurred related to:	
Current year	48,742,849
Prior years	64,814,162
Total incurred	113,557,011
Paid related to:	
Current year	32,434,949
Prior years	63,330,195
Total paid	95,765,144
Net balance at December 31,	193,455,444
Plus reinsurance recoverables	20,190,070
Balance at December 31,	$ 213,645,514

Unpaid losses and loss adjustment expenses are stated as the Company's estimate of the ultimate cost, excluding reinsurance, of settling all incurred but unpaid claims. Unpaid losses and loss adjustment expenses are not discounted and no estimate for salvage and subrogation is applied as a reduction to the unpaid losses. The estimate for unpaid losses and loss adjustment expenses is closely monitored and adjusted for changes in economic, social, judicial and legislative conditions, as well as historical trends. The Company uses various development modeling techniques to assist in the evaluation of its reserves under the direction of its chief actuary.

Management believes that the loss reserves are adequate, but establishing reserves is a judgmental and inherently uncertain process. It is, therefore, possible that as conditions and experience develops, reserve adjustments may be required in the future.

For both catastrophic and non-catastrophic claims, the loss adjusting function is performed by Company employees and contracted independent adjusting firms. The Company compensates the independent adjusting firms, depending upon the type or nature of the claims, either on per-day rate or on a graduated fee schedule based on the gross claim amount, consistent with industry standard methods of compensation.

As a result of changes in estimates of insured events in prior years, the unpaid loss and loss adjustment expenses incurred for prior years increased $64,814,162. This adverse development is primarily attributable to reserves established for class action lawsuits arising from 2005 events. The Company is involved in a number of class action lawsuits and other legal proceedings arising out of various aspects of its business which have been reserved for above and are included in prior year losses incurred in 2009. See Note 14 for a description of these class action claims.

NOTE 7 – BONDS PAYABLE

Series 2006B – During April 2006, the Company issued $678,205,000 of assessment revenue bonds for the purpose of redeeming bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from Hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, to make deposits to the Capitalized Interest Fund and the Debt Service Reserve Fund and to pay costs of issuance. The bonds were issued in denominations of $5,000 or any integral multiple thereof. The 2006B bonds bear interest ranging from 4.00% to 5.25% per annum, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2006. The bonds are secured, together with additional bonds, if any, by pledged revenues, which include primarily the 2005 Emergency Assessments. The bonds are not secured by the full faith and credit of the State of Louisiana. Payment of the principal and interest on the bonds when due is insured by a bond insurance policy. The bond maturity dates range from June 1, 2009 to June 1, 2023. Bond principal payments of $31,800,000 were made in 2009.

Series 2006C1 through 2006C4 – During April 2006, the Company issued $300,000,000 of assessment revenue bonds at auction rate for the purpose of redeeming bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from Hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, to make deposits to the Capitalized Interest Fund and the Debt Service Reserve Fund and to pay cost of issuance. The bonds were issued in denominations of $25,000 or any integral multiple thereof. Prior to their remarketing explained below, interest on the bonds adjusted based upon 35-day Auction Periods. Generally, the interest payment date for an auction period was the business day immediately following each auction period. The length of the auction period with respect to the bonds could be changed at the option of the Company in accordance with the auction agreement. The bonds are secured, together with additional bonds, if any, by pledged revenues, which include primarily the 2005 Emergency Assessments. The bonds are not secured by the full faith and credit of the State of Louisiana. Payment of the principal of and interest on the bonds when due is insured by a bond insurance policy. The bonds were reoffered in March 2009 after the Auction Rate Securities market collapsed.

During March 2009, the 2006C1 through 2006C4 series were reoffered in connection with the conversion of the interest rate from the auction mode rate to the long term interest rate and the remarketing of the 2006C bonds. In connection with the conversion and remarketing of the Series 2006C bonds, the original seventh supplement indenture was amended and restated by the amended and restated seventh supplemental indenture of trust dated as of April 1, 2009. The Series 2006B bonds were originally issued for the purpose of providing funds to redeem bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, to make deposits to the capitalized interest fund and the debt service reserve fund for the Series 2006C bonds and to pay costs of issuance. The Series 2006C bonds were remarketed in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof. On and after the respective conversion dated of each subseries of the series 2006C bonds, interest on the bonds is payable on each June 1 and December 1 commencing June 1, 2009, until maturity or prior redemption and the bonds were converted to the long-term interest rate on May 6, 2009. The 2006C bonds bear interest ranging from 2.75% to 6.75% per annum. On and after the respective conversion dates of each subseries of the series 2006C bonds, the scheduled payment of principal and interest on such

NOTE 7 – BONDS PAYABLE (Continued)

subseries of the bonds, when due, is guaranteed under a financial guaranty insurance policy issued concurrently with the delivery of such subseries of the 2006C bonds by Assured Guaranty Corp. The Series 2006C bonds are subject to optional redemption prior to maturity. The bond maturity dates range from June 1, 2009 to June 1, 2026. Principal payments were $16,350,000 in 2009.

A schedule of debt service requirements, including principal and interest, is as follows:

Maturity	Principal	Interest
2010	$ 36,030,000	$ 48,590,244
2011	38,209,339	46,838,006
2012	40,404,358	45,018,556
2013	42,761,945	43,016,294
2014	45,318,364	40,851,912
2015-2019	262,310,524	168,346,536
2020-2024	328,400,297	95,958,984
2025-2029	157,171,866	10,387,653
	$ 950,606,693	$ 499,008,185

Unamortized premium at December 31, 2009 was approximately $21 million.

The total interest expense on the bonds for the years ended December 31, 2009 was approximately $43.4 million including amortized premium of $1 million, and is included in "Interest expense" in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

	Beginning Balance	Additions	Deletions	Ending Balance
Bonds payable - face	$ 978,205,000	$ 300,000,000	$ (348,150,000)	$ **930,055,000**
Bond premium/discount	25,856,012	(1,890,630)	(3,413,689)	**20,551,693**
Bonds payable	$ 1,004,061,012	$ 298,109,370	$ (351,563,689)	$ **950,606,693**

NOTE 8 – AGENT COMMISSIONS AND SERVICING COMPANY FEES

The Company has contracted with various insurance agents licensed in the State of Louisiana. These agreements provide for commissions to be paid to the agents at rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges and assessments. Agent commissions included in other underwriting expenses incurred were approximately $25 million during 2009.

Additionally, the Company has entered into agreements with two servicing companies to provide underwriting and policy management services. The agreements provide for monthly compensation to the company based on a "Per Transaction Fee" applied to the number of transactions processed in a monthly cycle. During 2009, the servicing agreements were

NOTE 8 – AGENT COMMISSIONS AND SERVICING COMPANY FEES (Continued)

extended through September 30, 2010 on the same (or similar) terms. Servicing company fees incurred and included in other underwriting expenses incurred were approximately $5 million during 2009. In addition, no agents or servicing companies have been paid more than 5% of net assets in 2009.

NOTE 9 – REINSURANCE AGREEMENTS

The Company purchases private reinsurance through Aon Benfield, Inc., as a licensed reinsurance intermediary. The participating reinsurance companies will reimburse the Company, through the intermediary, a specified percentage of losses incurred if a prescribed retention is reached.

The Company's reinsurance program is based on levels of loss. The Company is liable for the first amount of ultimate net loss, shown in the table below as "Company's Retention", arising out of each loss occurrence. The reinsurer is then liable, as respects each excess layer, for the amount by which such ultimate net loss exceeds the Company's applicable retention for that layer. However, the liability of the reinsurer under any excess layer of reinsurance coverage provided does not exceed either of the following: (1) the amount shown below as "Reinsurer's Per Occurrence Limit" for that excess layer as respects loss or losses arising out of any one loss occurrence, or (2) the amount shown as "Reinsurer's Term Limit" for that excess layer. Each excess layer of reinsurance coverage provided is as follows:

	January 1, 2009 to May 31, 2009		June 1, 2009 to December 31, 2009	
	First Excess	**Second Excess**	**First Excess**	**Second Excess**
Company's retention	$ 200,000,000	$ 400,000,000	$ 100,000,000	$ 200,000,000
Reinsurer's per occurrence limit	200,000,000	300,000,000	100,000,000	300,000,000
Reinsurer's term limit	400,000,000	600,000,000	200,000,000	600,000,000
Annual minimum premium	25,600,000	26,400,000	19,800,000	40,400,000
Adjustment rate	0.104575%	0.107843%	0.09000%	0.183636%

In the event that all or any portion of the reinsurance under the excess layer above is exhausted by loss, the amount exhausted can be reinstated immediately if the Company agrees to pay additional premium. The premium for each excess layer of reinsurance coverage provided is the greater of the following: (1) the "Annual Minimum Premium" as shown above; or (2) the percentage, shown as "Adjustment Rate" above for that excess layer of the Company's aggregate wind total insured limit for business in force as of September 30, 2009 which is estimated to be $27,500,000,000.

NOTE 9 – REINSURANCE AGREEMENTS (Continued)

The effect of reinsurance on premiums written and earned is as follows:

Year-ended December 31, 2009

	Premiums	
	Written	Earned
Direct	$ 224,602,225	$ 228,582,202
Ceded	(55,854,664)	(55,854,664)
Net premiums	$ 168,747,561	$ 172,727,538

Premium direct above also includes premium transferred to companies that assume policies pursuant to a depopulation program.

NOTE 10 – RETIREMENT PLAN

Prior to September 1, 2008, the Company sponsored a non-contributory defined benefit pension plan covering all employees that were hired prior to April 1, 2008, through a services agreement with Property Insurance Association of Louisiana (PIAL). As of September 1, 2008, the Company froze its defined benefit pension plan and converted it to a defined contribution plan. The Company contributes 11% of each employee's wages to the defined contribution plan. Contributions are expensed each month and the Company carried no assets or liabilities for the defined contribution plan on its statement of admitted assets, liabilities and surplus. The Company's contribution to the plan was approximately $146,000 in 2009.

NOTE 11 – COMPENSATED ABSENCES

Employees earn and accrue vacation and sick leave at various rates, depending on their years of service. The maximum amount of sick leave that may be accrued by each employee at any given time is 20 days. The maximum vacation carry-over at the end of the year is five days. Upon termination, employees are compensated for any unused vacation leave at the employee's hourly rate of pay at the time of termination. The liability for unused vacation leave at December 31, 2009, was approximately $89,000.

NOTE 12 – LEASES

The Company is obligated under certain non-cancelable operating leases for office space that will expire at various dates. The future minimum payments as of December 31, 2009 follow:

Years ending December 31,	
2010	$ 443,375
2011	446,158
2012	449,026
2013	451,964
2014	264,666
	$ 2,055,189

Rental expense for 2009 was approximately $450,000.

NOTE 13 – RECONCILIATION WITH GAAP, STAT AND WITH AMOUNTS FILED WITH THE STATE INSURANCE DEPARTMENT

Accounting principles generally accepted in the United States of America (GAAP basis) differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (statutory basis). A reconciliation between the change in net assets and the deficiency in net assets as reported under GAAP basis and statutory basis as well as a reconciliation of amounts in the accompanying statutory basis financial statements with annual report amounts filed with the Louisiana Department of Insurance follows:

Year ended December 31, 2009	
Change in net assets - GAAP basis	$ 74,601,570
Adjustments to:	
Deferred acquisition costs	397,995
Pension plan expense	739,032
Bond issuance costs	7,877,098
Allowance for doubtful accounts	(559,501)
Excess regular assessment recoupments	841,228
Excess emergency assessments	(60,491,650)
Tax exempt surcharge	(7,556,470)
Net income - statutory basis	$ 15,849,302

NOTE 13 – RECONCILIATION WITH GAAP, STAT AND WITH AMOUNTS FILED WITH THE STATE INSURANCE DEPARTMENT (Continued)

December 31, 2009	
Total deficiency in net assets - GAAP basis	**$ (869,325,645)**
Adjustments to:	
Non-admitted assets	**(5,242,442)**
Deferred acquisition costs	**(10,840,186)**
Postretirement benefit liability	**739,032**
Bond issuance costs	**(13,417,297)**
Excess emergency assessments	**(59,726,032)**
Allowance for doubtful accounts	**798,549**
Emergency assessments receivable	**930,055,000**
Provision for reinsurance receivable	**(1,602,629)**
Accumulated deficit - statutory basis	**$ (28,561,650)**

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Company is involved in certain litigation and disputes incidental to its operations. In the opinion of management, after consultation with legal counsel, there are substantial defenses to such litigation and disputes and any ultimate liability, in excess of reserves resulting there from, will not have a material adverse effect on the Company's financial condition or results of operations.

The Company is also involved in other potentially significant litigation described below; any of which could have a material adverse effect on the financial condition or results of operations. These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation or otherwise; and the current legal environment faced by large corporations and insurance companies.

The outcome of these matters may be affected by decisions, verdicts, settlements and the timing of such in other individual and class action lawsuits that involve the Company, other insurers, or other entities and by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities. The outcome may also be affected by future state legislation, the timing or substance of which cannot be predicted.

In lawsuits, plaintiffs seek a variety of remedies. In some cases, the monetary damages sought include punitive or treble damages. Often specific information about the relief sought, such as the amount of damages is not available. When specific monetary demands are made, they are often set just below a state court jurisdictional limit in order to seek the maximum amount available regardless of the specifics of the case.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

For the reasons previously specified, it is often not possible to make meaningful estimates of the amount or range of loss that could result from the known and unknown matters described. The Company reviews these matters on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. When assessing "reasonably possible" and "probable" outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals. Additionally, in instances where a judgment, assessment or fine has been rendered against the Company, there is a presumption that criteria in reaching a "reasonably possible" and "probable" outcome has been met. In such instances, the amount of liability recorded by the Company will include the anticipated settlement amount, legal costs, insurance recoveries and other related amounts and take into account factors such as the nature of the litigation, progress of the case, opinions of legal counsel, and management's intended response to the litigation, claim, or assessment.

Due to the complexity and scope of the matters disclosed below and the many uncertainties that exist, the ultimate outcome of these matters cannot be reasonable predicted. In the event of an unfavorable outcome in any one or more of these matters, the ultimate liability may be in excess of amounts currently reserved.

A summary of potentially significant litigation follows:

Geraldine Oubre v. Louisiana Citizens: This is a class action. The plaintiffs allege that the Company failed to timely initiate loss adjustment for claims related to the occurrences of Katrina and Rita. Efforts to defeat class certification failed at the trial court level, the Fifth Circuit Court of Appeal and the Louisiana Supreme Court. The Company's motion for a new trial was denied by the court. On May 2, 2010, the Company argued before the fifth Circuit Court of Appeal and is awaiting a ruling as to the appeal. The Company will file an Application for Supervisory Writs to the Louisiana Supreme Court if they do not prevail with the Fifth Circuit Court.

In the interim, the plaintiffs have filed another wave of motions for summary judgment. The value of this wave of motions for summary judgment is somewhere in the range of $50 million, thus bringing the total potential judgment to $140 million plus judicial interest from the date of judgment.

Nonetheless, it is certain that this matter cannot resolve itself for any amount below $6 million, which has been deposited with the trial count in August, 2009. The Company has recorded approximately $92.8 million in reserves associated with this case as a result of a judgment which was rendered by the trial court. See Note 6 above.

Toni Swain Orrill v. Louisiana Citizens: This is a class action claiming allegations of bad faith with respect to the failure to timely initiate a loss adjustment as well as the failure to timely pay insurance benefits upon receipt of satisfactory proof of loss relating to Katrina and Rita claims. The Company entered into a stipulation of settlement with the Orrill class, which settlement was approved by the trial court, whereby the claims would be settled for $1,000 per claimant, up to a total amount of $30 million dollars and $5 million in attorney's fees.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

On April 21, 2010, the Court of Appeal issued its ruling, finding that the settlement unfairly affected the rights of the class in Oubre, and issued an order vacating the settlement and remanding the case to trial court for further proceedings.

An Application for Supervisory Writs with the Louisiana Supreme Court has been filed asking them to review the decision. If the court denies the writ, this matter will be remanded to the trial court for further proceedings, and the Company may continue in their efforts to settle the case.

In September 2010, the Louisiana Supreme Court, denied the Writ mentioned above. A reserve of $30 million has been recorded by the Company. See Note 6 above

Stephanie Press v. Louisiana Citizens: This is a class action whereby the Company failed to provide General Contractor Overhead and Profit (GCOP) for the claims of those insured who sustained damage as a result of Katrina and Rita, and whose damages claims necessitated the retention of three or more trades to complete the necessary renovations/repairs, and as per the Company policy.

The Company engaged in settlement discussions with the plaintiff's class counsel, and was able to reach a settlement of this entire class action for $23 million, which was paid subsequent to December 31, 2009. Accordingly, a reserve of $23 million has been recorded by the Company. See Note 6 above.

Tracy Thibodeaux, et al. v. Louisiana Citizens: This class action alleges that the Company improperly charged an application fee of $65 that was not included in the dollar amount of the premium disclosed on the policy of the insurance delivered which constitutes a violation of La. Rev. Stat. 22:627. The plaintiffs seek a refund of the application fee to all individuals who were charged this fee.

The plaintiffs' attorney has discussed with the Company and agreed to withhold class notice being issued until the Company has litigated the substantive issue as to whether the application fee charged by Louisiana Citizen's constitutes a premium which should be specifically listed on the declaration page.

The Company believes that there is a likelihood that they may be able to prevail in this action. However, should the court determine that L.R.S. 22:627 should be strictly construed, and that the application fee does constitute a portion of the premium which must be disclosed, then the Company may be exposed to a judgment that will order them to return the application fee to as many as 178,000 applicants. Since this class action is in discovery stage, no reserve has been recorded by the Company.

Slidell Property Management, LLC v. Louisiana Citizens: This case represents a first-party mass joinder claim alleging that Slidell Property Management is the owner of 43 residences located on Clarise Court in Slidell, La, where "Chinese Drywall" was used in the construction of these homes. The Plaintiff claims substantial property damage in the form of corrosion to air conditioner coils, refrigerator coils, copper tubing, electrical wiring, computer wiring and other household items resulting from the sulfuric gases and other vapors coming from the defective drywall.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

LCPIC has a right to litigate coverage issues where, it appears that the coverage exclusions contained within the LCPIC policy should serve to exclude coverage for the alleged damages. Furthermore, based on the applicable policy periods of each policy, it is possible that the "loss event" – if construed as the installation of the Chinese Drywall rather than the manifestation of damages related to such drywall – occurred outside the policy period. Since this action is in discovery stage, no reserve has been recorded by the Company.

The Company participated in an arbitration proceeding initiated by a third party service provider related to a dispute that arose between the parties over the quality of adjusting services performed and adequacy of payments made for those services provided relating to Hurricane Katrina claims. Phase one and phase two of arbitration has resulted in an award against the Company in the amount of approximately $2.5 million in July 2010. Accordingly, a reserve of approximately $2 million has been recorded by the Company. See Note 6 above.

The Company participated in arbitration involving damages resulting from a third party technology company's failure to provide contracted-for services in a professional and workmanlike manner. Settlement of those claims has been completed with an award in the Company's favor of approximately $500,000 in early 2010.

A firm represents the Company in connection with a litigation brought by the Company against J.P. Morgan Securities, Inc. and Bear Stearns & Co., Inc., regarding the Company's issuance in 2006 of Auction Rate Securities. Currently the Company expects to arbitrate that case. No counter claims are expected.

Various other lawsuits against the Company have arisen in the course of the Company's business, including in excess of 3000 pending suits as of December 31, 2009 associated with hurricanes Rita and Katrina which occurred in 2005. The Company believes it has established appropriate reserves for all lawsuits, including approximately $26 million associated with claims associated with Hurricanes Rita and Katrina, in addition to class action claims described above. The Company has no assets that it considers to be impaired.

In addition to claims under the insurance policies it issues, the Company is potentially exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As of the end of 2009, the Company had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, and directors' and officers' liability. Management continuously revisits the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

NOTE 15 – DEPOPULATION

The Louisiana State Legislature created the Company to operate insurance plans as a residual market for residential and commercial property. The legislature further intended that the Company work toward the ultimate depopulation of these residual market plans also known as

NOTE 15 – DEPOPULATION (Continued)

the Coastal Plan and the FAIR plan. To encourage the ultimate depopulation of these residual market plans, the Louisiana Citizens Property Insurance Corporation Policy Take-Out Program was created.

Under the take-out plan guidelines, not less than once per calendar year, the Company will offer its in-force policies for removal to the voluntary market. The in-force policies will be bundled in groups of not less than five hundred policies and include both policies issued under the Coastal Plan and the FAIR Plan. The Company will include policies in the bundle with geographic and risk characteristics that serve to reduce the exposure of the corporation. The bundles must include both of the following: (1) 25% of the policies must be policies which provide coverage to structures located in L.R.S. 40:1730.27; and (2) at least 75% of which net premiums are received from policyholders will be from insurance policies covering single-family residential structures, residential duplex structures, or residential forplex structures. Each insurer admitted to write homeowners insurance or insurance which covers commercial structures in the state of Louisiana may submit a take-out plan to the Company for the bundled policies. The Company will submit each take-out plan to the Department of Insurance for review and approval.

Policies may be removed from the Company at policy renewal or as part of a bulk assumption. In an assumption, the take-out company is responsible for losses occurring from the assumption date through the expiration of the Company's policy period.

Unearned premiums remitted to take-out companies pursuant to assumption agreements is reflected as a reduction in "Premiums earned" in the Statutory Statement of Operations and totaled $5,603,080 for the year ended December 31, 2009.

The Company provides administration services with respect to the assumed policies. All agreements provide for the take-out company to adjust losses. The take-out company pays a ceding commission to the Company to compensate the Company for policy acquisition costs, which includes servicing company fees, agent commissions, and premium taxes. While the Company is not liable to cover claims after the assumption, the Company continues to service policies for items such as policy holder endorsements or cancellation refunds. Should the Company process and provide a refund to policyholders, such amount is subsequently collected from the take-out company. At December 31, 2009, assumed premiums in the amount of $800 were due from certain take-out companies.

NOTE 16 – RESTRICTED NET ASSETS

The Statement of Net Assets includes $119,393,906 of net assets restricted for the repayment of the Special Assessment Revenue Bonds, which has been restricted by enabling legislation. The amounts equal the excess of unspent emergency assessments collected to satisfy the debt service requirements for the year.

NOTE 17 – SUBSEQUENT EVENTS

On August 12, 2010, the Company successfully completed efforts to obtain a two year $50 million line of credit from a financial institution. The line of credit was obtained for an initiation fee of $140,000 with interest fees on amounts utilized of LIBOR plus 240 basis points for the

NOTE 17 – SUBSEQUENT EVENTS (Continued)

first 90 days and LIBOR plus 275 basis points for 90 – 365 days of utilization. The Company obtained the line of credit to increase liquidity in the event of a major storm. The Company has not drawn upon this line as of the date of the report.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Louisiana Citizens Property Insurance Corporation
Metairie, Louisiana

We have audited the financial statements of the business-type activities of Louisiana Citizens Property Insurance Corporation as of and for the year ended December 31, 2009 and our report thereon dated September 22, 2010, which expressed an unqualified opinion on the statement of net assets, appears on pages 1 and 2. Because of the matter discussed in the second paragraph of that report, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the results of operations and cash flows for the year ended December 31, 2010. The accompanying Annual Fiscal Report ("the AFR"), which is included at Appendix A and is prepared in accordance with requirements of the State of Louisiana Division of Administration's Office of Statewide Reporting and Accounting Policy, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The AFR, with the exception of the Management's Discussion and Analysis contained thereinhas been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the statement of net assets included in the AFR is fairly stated, in all material respects, in relation to the financial statements taken as a whole. Because of the significance of the matter discussed in the second paragraph of our audit report, which appears on pages 1 and 2, it is inappropriate to, and we do not, express an opinion on the results of operations and cash flows as reported in the AFR.

We have applied certain limited procedures to Management's Discussion and Analysis included in the AFR, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the Company's management, the Board of Directors and members of the Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, LLC

New Orleans, Louisiana
September 22, 2010

Appendix A

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
STATE OF LOUISIANA
Annual Financial Statements
December 31, 2009

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STATE OF LOUISIANA
Annual Financial Statements
Fiscal Year Ending December 31, 2009

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
433 METAIRIE ROAD, SUITE 600
METAIRIE, LOUISIANA 70005

Division of Administration Office of Statewide Reporting and Accounting Policy P.O. Box 94095 Baton Rouge, Louisiana 70804-9095	Legislative Auditor P.O. Box 94397 Baton Rouge, Louisiana 70804-9397
Physical Address: 1201 N. Third Street Claiborne Building, 6th Floor, Suite 6-130 Baton Rouge, Louisiana 70802	Physical Address: 1600 N. Third Street Baton Rouge, Louisiana 70802

AFFIDAVIT

Personally came and appeared before the undersigned authority, Stephen M. Cottrell (Name) Chief Financial Officer (Title) of Louisiana Citizens Property Insurance Corporation (Agency) who duly sworn, deposes and says, that the financial statements herewith given present fairly the financial position of Louisiana Citizens Property Insurance Corporation (agency) at December 31, 2009 and the results of operations for the year then ended in accordance with policies and practices established by the Division of Administration or in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board. Sworn and subscribed before me, this 31st day of August, 2010.

Stephen M Cottrell
Signature of Agency Official

Paige M Harper
Notary Public
LA Bar No. 05322

Prepared by: Larry L. Hayward
Title: Director of Statutory Reporting
Telephone No.: (504) 832-3230
Date: August 31, 2010
Email Address: lhayward@lacitizens.com

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF GAAP FINANCIALS
AS OF DECEMBER 31, 2009

Company Background

This discussion provides an assessment by management of the financial position, results of operations, cash flow and liquidity for Louisiana Citizens Property Insurance Corporation (LCPIC). LCPIC was established in 2003 by the Louisiana legislature as a nonprofit corporation to operate residual market insurance plans effective January 1, 2004. The objective of LCPIC is to provide essential property insurance for residential and commercial property applicants who are unable to procure insurance through the voluntary market. LCPIC is the successor to the program established by Act 424 of the 1992 Regular Legislative Session designated as the "Fair Access to Insurance Requirements Plan" or otherwise known as the Louisiana Joint Reinsurance Plan (FAIR Plan) and the Louisiana Insurance Underwriting Plan (Coastal Plan). Information presented in this discussion supplements LCPIC's 2009 Annual Financial Statements.

Major events occurring in 2009 for LCPIC were:

- The auction rate securities ($300 million) related to the assessment revenue bonds were converted to fixed interest rate bonds during the second quarter of 2009.
- In 2009, LCPIC began programming efforts for a new policy and claim management system.
- LCPIC completed a third round of depopulation in 2009 transferring 3,400 policies and $900 million of exposure to the private insurance market.
- There were no significant catastrophes that occurred in 2009.

Financial Position

LCPIC's financial position (GAAP Basis) at December 31 was as follows:

Balance Sheet (in thousands of dollars - 000)	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$105,073	$23,053
Receivables (net, allowance for doubtful accts.)	70,592	181,786
Prepayments	11,077	21,592
Other current assets	18	0
Total current assets	186,760	226,431
NONCURRENT ASSETS:		
Restricted assets with bond trustee	$183,316	$190,307
Capital assets, net of accumulated depreciation	4,178	5,161
Other noncurrent assets	48,417	36,295
Total noncurrent assets	235,911	231,763
Total assets	$422,671	$458,194

LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accruals	$224,772	$265,016
Deferred revenues	118,763	123,039
Other current liabilities	(3,148)	10,467
Current portion of long-term liabilities:		
Compensated absences payable	56	33
Bonds payable (including unamortized costs)	36,030	48,150
Total current liabilities	376,473	446,705
NONCURRENT LIABILITIES:		
Bonds payable (including unamortized costs)	914,577	955,417
Other noncurrent liabilities	947	0
Total noncurrent liabilities	915,524	955,417
Total liabilities	1,291,997	1,402,122
NET ASSETS		
Invested in capital assets, net of related debt	4,178	5,161
Restricted for debt service	123,288	74,322
Unrestricted	(996,792)	(1,023,411)
Total net assets	(869,326)	(943,928)
Total liabilities and net assets	$422,671	$458,194

Assets

Total assets decreased by $35.5 million (8%) in 2009 as compared to 2008 due the reasons described below.

Included in the decrease in total assets was an increase in cash and cash equivalents. Cash increased by $82.0 million (356%) in 2009 due to cash collections for reinsurance losses and a decrease in payments for storm related losses and expenses as noted on the page 1.

The $111.2 million decrease in receivables is primarily due to a decrease in reinsurance loss receivables in 2009 as compared to 2008. The reinsurance loss receivables decreased by $103 million in 2009 compared to 2008 because the majority of claims from Hurricanes Gustav and Rita were settled in 2008 and recovered through reinsurance in 2009.

The $10.5 million decrease in prepayments is due to the decrease in prepaid reinsurance premiums in 2009 as compared to 2008. A 2009 reinsurance premium installment of $10.3 million was due on 01/01/09, which was a banking holiday. LCPIC elected to pay the installment on 12/31/08.

The restricted assets with bond trustee are entirely related to the assessment revenue bond obligations issued in 2006 to pay Hurricane Katrina losses. These assets are money market securities and repurchase agreement securities, both held by the bond custodian, Regions Bank. The restricted assets with bond trustee decreased by $7.0 million (4%) in 2009, primarily due to payment of bond debt service costs.

Other noncurrent assets consist of funds held in trust and bond issuance costs. The $12.1 million increase in 2009 as compared to 2008 in other noncurrent assets is primarily due to the increase of funds held in trust. In the class action suit, *Orrill v. Louisiana Citizens Property Insurance Corporation*, LCPIC entered into a preliminary class action settlement. The settlement required the maximum settlement amount of $35 million to be deposited with the court trustee. The final estimate for the settlement was $18 million. In December, 2008 LCPIC recorded $18 million as an incurred expense and set up a receivable for $17 million. This settlement was overturned on April 19, 2010 and LCPIC is appealing this action. Due to the uncertain nature of the final outcome, and with approval of LCPICs' audit firm, LCPIC has classified the entire $35 million as a settlement loss reserve and receivable for the financial statement period ending December 31, 2009.

Liabilities

Total liabilities decreased by $110.1 million (8%) in 2009 as compared to 2008 primarily due to the reasons described below.

Accounts payable and accruals consist of unpaid losses and loss adjustment expenses (LAE); commissions payable to agents; accrued expenses, taxes, licenses and fees; and accrued bond interest payable. The $40.2 million decrease in accounts payable and accruals is primarily due to a $38.2 million decrease in unpaid losses and LAE in 2009 as compared to 2008.

Included in accounts payable and accruals are reserves for unpaid losses and LAE. Activity with respect to unpaid losses and LAE for the last two years is displayed below:

Losses and LAE (000)	2009	2008
Unpaid losses and LAE at beginning of year	$251,891	$405,039
Losses and LAE incurred in current year:		
For current year losses and LAE	83,743	417,220
For prior year losses and defense and cost containment expenses	50,846	(84,637)
For prior year adjusting and other expenses	(4,384)	(33,300)
Current year service provider fees	(5,301)	6,549
Income statement amounts	124,904	305,832
Losses and LAE paid in current year:		
For current year losses and LAE	(32,435)	(314,400)
For prior year losses and LAE	(130,715)	(144,580)
Underwriting exhibits paid amounts	(163,150)	(458,980)
Unpaid losses and LAE at end of year	$213,645	$251,891

Unpaid losses and LAE decreased $38.2 million (15%) in 2009 as compared to 2008. 2009 losses and LAE incurred are $333.5 million lower in 2009 compared to 2008 because there were no major storms in 2009. Adverse development for prior year incurred losses, LAE, and current year service provider fees was $41.2 million ($50,846 - $4,384 - $5,301). An additional $48 million bulk loss reserve for the 2005 class action lawsuits established by LCPIC's management was the principle driver of this adverse development. A decrease in the total losses and LAE paid of $295.8 million in 2009 as compared to 2008, is because the majority of Hurricanes Gustav and Ike claims were settled in 2008.

Unpaid losses and LAE are stated as LCPIC's estimate of the ultimate cost, excluding reinsurance, of settling all incurred but unpaid claims. Unpaid losses and loss adjustment expenses are not discounted and no estimate for salvage and subrogation is applied as a reduction to the unpaid losses. The estimate for unpaid losses and loss adjustment expenses is closely monitored and adjusted for changes in economic, social, judicial and legislative conditions, as well as historical trends. LCPIC uses various development modeling techniques to assist in the evaluation of its reserves under the direction of its chief actuary.

Management believes that the loss reserves are adequate, but establishing reserves is a judgmental and inherently uncertain process. It is therefore possible that as conditions and experience develops, reserve adjustments may be required in the future.

Other current liabilities consist of payables for LCPIC's depopulation program, pension liability, payable for reinsurance premiums, and other payroll related liabilities. The $13.6 million decrease in the other current liabilities in 2009 as compared to 2008, is primarily due to the decrease in the payable for reinsurance premiums. In 2008, a reinsurance reinstatement premium was due after Hurricane Gustav and additional reinsurance premium became payable at the end of 2008. In comparison, no reinstatement premium was paid or payable at the end of 2009, however a reinsurance premium recovery was recorded resulting in a receivable balance.

The combined current and noncurrent bonds payable decreased by $53.0 in 2009 as compared to 2008 primarily due to the assessment revenue bond principal paid in 2009.

Net Assets

Total net assets increased by $74.5 million in 2009 as compared to 2008.

The primary reasons for the increase in total net assets were:
1) Net income from operations in 2009 of $18.0 million.
2) Emergency assessment income exceeded debt service costs on long-term debt obligations by $47.0 million.
3) Tax exempt surcharge collected on LCPIC policies in 2009 was $7.6 million.

Results of Operations

LCPIC's operating results (GAAP Basis) are presented in the following table.

Statement of Revenues, Expenses, and Changes in Fund Net Assets (000)	2009	2008
OPERATING REVENUE:		
Sales of commodities and services	$169,372	$191,827
Use of money and property	408	3,576
Other operating revenues	3,453	4,348
Total operating revenues	173,233	199,751
OPERATING EXPENSES:		
Cost of sales and services	152,423	235,635
Depreciation	2,731	2,714
Total operating expenses	155,154	238,349
Operating income(loss)	18,079	(38,598)
NON-OPERATING REVENUES(EXPENSES):		
Interest expense	(65,506)	(63,489)
Other revenue	122,029	121,044
Total non-operating revenues(expenses)	56,523	57,555
Change in Net Assets	74,602	18,957
Net Assets at Beginning of Year	(943,928)	(962,885)
Net Assets at End of Year	($869,326)	($943,928)

Change in net assets increased $55.6 million in 2009 as compared to 2008 due to the reasons described below.

Partially offsetting the increase in net assets was the decrease in sales of services. Sales of services (premiums earned) decreased $22.5 million. Premiums earned decreased due to fewer policies written in 2009 as compared 2008. LCPIC's depopulation program was the major driver of the reduction of premiums earned in 2009 as compared 2008.

The cost of sales and services decreased $83.2 million (35%) due to the no catastrophe storms in 2009 as compared to 2008.

Cash Flow and Liquidity

Cash Flow

Sources of cash include proceeds from customers, principally, premiums and emergency assessments collected, and amounts received from restricted investments. Primary uses of cash include cash payments for services provided, cash payments to employees for services, and principal and interest paid on debt.

The other cash flow from non-capital financing activities is primarily assessment collections less interest paid on Katrina bonds.

The purchases of investment securities and the proceeds from the sale of investment securities under cash flows from investing activities relate to cash and investments held by the Trustee for the repayment of the Katrina bonds.

Liquidity

All liquid funds held by LCPIC are kept in interest bearing commercial bank accounts that are 100% collateralized.

In 2005, LCPIC did not have sufficient funds to pay 80,000 claims resulting from Hurricanes Katrina and Rita. LCPIC borrowed $978.2 million, of which $678.2 million were fixed rate bonds and $300.0 million were variable auction rate bonds. During the second quarter of 2009, LCPIC elected to convert the auction rate bonds to fixed interest rate bonds. The debt service of these bonds is paid through emergency assessments on property insurance policies written in the State of Louisiana. The emergency assessments are remitted quarterly to the bond trustee.

In addition to policyholder premiums, LCPIC has a much broader range of resources available to pay losses and repay debt obligations than does a typical insurer. LCPIC can institute a regular assessment on the state insurance industry of up to 10% for deficits each year, and an emergency assessment of up to 10% on homeowners of the State of Louisiana per storm event to pay debt incurred for named storms. No line of credit is currently maintained for catastrophe losses and general corporate purposes however, LCPIC uses reinsurance to mitigate storm losses and the possibility of assessments.

Pending Litigation

There are approximately 2,488 open litigation matters against LCPIC. Approximately 74% of these matters are first-party suits related to Hurricanes Katrina and Rita.

The balance of the litigated matters are related to Hurricanes Gustav and Ike, fire losses, third-party bodily injury claims, subrogation matters or examinations under oath of insured's with questionable coverage claims.

LCPIC is also a defendant in four class action suits resulting from Hurricanes Katrina and Rita:

- *Orrill v. Louisiana Citizens Property Insurance Corporation*, LCPIC entered into a preliminary class action settlement. The settlement required the maximum settlement amount of $35 million to be deposited with the court trustee. The final estimate for the settlement was $18 million. In December, 2008 LCPIC recorded $18 million as an incurred expense and set up a receivable for $17 million. This settlement was overturned on April 19, 2010 and LCPIC is appealing this action. This suit is also referred to in the assets discussion and analysis on Page 3.

- *Press v. Louisiana Citizens Property Insurance Corporation*. A settlement of $23 million was reached and subsequently paid on May 26, 2010. This suit involved contractor overhead and profit for Hurricanes Katrina and Rita claims.

- *Thibodeaux v. Louisiana Citizens Property Insurance Corporation*. The Plaintiffs in this suit allege that LCPIC failed to include the $65.00 application fee on its declaration page for all new policies. Plaintiffs seek return of the $65.00 fee for all affected policyholders. This matter was certified as a class action by the court on February 17, 2009 and LCPIC is before the Supreme Court of Louisiana on writs asking that the certification be overturned. In addition to the issues related to certification, there are a number of legal issues related to the merits that will need to be addressed by the court. The resolution of any of these issues could result in this case being dismissed as a whole. LCPIC does not anticipate a significant judgment in this matter.

- *Oubre v. Louisiana Citizens Property Insurance Corporation.* The plaintiffs in this suit allege that LCPIC failed to timely initiate loss adjustment as required by Louisiana statutory law, thus exposing LCPIC to mandatory penalties in the amount of $5,000.00. This matter was certified as a class action. Class certification has been upheld by the Court of Appeal. LCPIC received an adverse decision on a partial motion for summary which resulted in a $93 million judgment. LCPIC has appealed the judgment and in August 2009, paid plaintiffs' attorneys $6 million to avoid filing an appeal bond. The matter is now pending before the 5th Circuit, awaiting a date for oral argument. LCPIC has a realistic belief that the judgment will be overturned or the case settled for an amount significantly less than $95 million.

LCPIC has reserves in its Balance Sheet that are deemed to be sufficient to cover the expected outcome of all class action suits. These matters are being vigorously defended by nine outside law firms.

Future Plans

LCPIC has a reinsurance program that provides catastrophe coverage for 95% of $400.0 million after a $100.0 million retention that expires on June 1, 2010. LCPIC has negotiated a new reinsurance program for the 2010 storm season with the same coverage limit and retention.

As a result of multiple issues, LCPIC's policy and claim management system was reviewed and a decision was made to purchase a new policy and claim management system. An RFP was prepared and released in the spring of 2008 and a contract for a new policy and claim management system was awarded in the first quarter of 2009. LCPIC is currently implementing the new system and will retire the existing policy and claim management system.

To the extent that the above comments about future plans constitute forward-looking statements, these statements are not guaranties of future performance. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about LCPIC, economic and market factors, judicial rulings and the insurance industry, among other things. Actual events may differ materially from those expressed in forward-looking statements.

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
BALANCE SHEET
AS OF DECEMBER 31, 2009

STATEMENT A

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 105,072,611
Restricted cash and cash equivalents	0
Investments	0
Derivative instrument	0
Deferred outflow of resources	
Receivables (net of allowance for doubtful accounts)(Note U))	70,591,793
Due from other funds (Note Y)	0
Amounts due from primary government	0
Due from Federal Government	0
Inventories	0
Prepayments	11,076,712
Notes Receivable	0
Other current assets	18,610
Total current assets	$ 186,759,726
NONCURRENT ASSETS:	
Restricted assets (Note F):	
Cash	0
Investments	183,315,693
Receivables	0
Investments	0
Notes receivable	0
Capital assets, net of depreciation (Note D)	
Land and non-depreciable easements	0
Buildings and improvements	0
Machinery and equipment	4,178,491
Infrastructure	0
Intangible assets	0
Construction/Development-in-progress	0
Other noncurrent assets	48,417,296
Total noncurrent assets	235,911,480
Total assets	$ 422,671,206
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable and accruals (Note V)	$ 224,772,491
Derivative instrument	0
Deferred inflow of resources	0
Due to other funds (Note Y)	0
Due to Federal Government	0
Deferred revenues	118,762,818
Amounts held in custody for others	0
Other current liabilities	(3,147,823)
Current portion of long-term liabilities: (Note K)	
Contracts payable	0
Compensated absences payable	55,341
Capital lease obligations	0
Claims and litigation payable	0
Notes payable	0
Pollution remediation obligations	0
Bonds payable (include unamortized costs)	38,754,047
Other long-term liabilities	0
Total current liabilities	379,196,874
NONCURRENT LIABILITIES: (Note K)	
Contracts payable	0
Compensated absences payable	0
Capital lease obligations	0
Claims and litigation payable	0
Notes payable	0
Pollution remediation obligations	0
Bonds payable (include unamortized costs)	911,852,646
OPEB payable	
Other long-term liabilities	947,337
Total noncurrent liabilities	912,799,983
Total liabilities	1,291,996,857
NET ASSETS	
Invested in capital assets, net of related debt	4,178,492
Restricted for:	
Capital projects	0
Debt service	123,288,464
Unemployment compensation	0
Other specific purposes	0
Unrestricted	(996,792,807)
Total net assets	(869,325,651)
Total liabilities and net assets	$ 422,671,206

The accompanying notes are an integral part of this financial statement.

STATE OF LOUISIANA — STATEMENT B

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2009

OPERATING REVENUE	
Sales of commodities and services	$ 169,371,734
Assessments	0
Use of money and property	408,571
Licenses, permits, and fees	0
Other	3,453,110
Total operating revenues	173,233,415
OPERATING EXPENSES	
Cost of sales and services	152,423,160
Administrative	0
Depreciation	2,731,416
Amortization	0
Total operating expenses	155,154,576
Operating income(loss)	18,078,839
NON-OPERATING REVENUES(EXPENSES)	
State appropriations	0
Intergovernmental revenues(expenses)	0
Taxes	0
Use of money and property	0
Gain on disposal of fixed assets	0
Loss on disposal of fixed assets	0
Federal grants	0
Interest expense	(65,506,432)
Other revenue	122,029,158
Other expense	
Total non-operating revenues(expenses)	56,522,726
Income(loss) before contributions, extraordinary items, & transfers	74,601,565
Capital contributions	0
Extraordinary item - Loss on impairment of capital assets	0
Transfers in	0
Transfers out	0
Change in net assets	0
Total net assets - beginning	(943,927,216)
Total net assets - ending	(869,325,651)

The accompanying notes are an integral part of this financial statement.

STATE OF LOUISIANA **Statement C**
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

See Appendix B for Instructions

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Entity	$ -	$ -	$ -	$ -	0

General revenues:	
Taxes	
State appropriations	
Grants and contributions not restricted to specific programs	
Interest	
Miscellaneous	
Special items	
Extraordinary item - Loss on impairment of capital assets	
Transfers	
Total general revenues, special items, and transfers	0
Change in net assets	0
Net assets - beginning as restated	
Net assets - ending	0

**********Not Applicable**********

The accompanying notes are an integral part of this financial statement.

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENED DECEMBER 31, 2009

STATEMENT D
(continued)

Cash flows from operating activities		
Cash received from customers	$ 169,683,048	
Cash payments to suppliers for goods and services	(98,436,981)	
Cash payments to employees for services	(5,044,247)	
Payments in lieu of taxes	0	
Internal activity-payments to other funds	0	
Claims paid to outsiders	0	
Other operating revenues(expenses)	3,861,681	
Net cash provided(used) by operating activities		70,063,501
Cash flows from non-capital financing activities		
State appropriations	0	
Federal receipts	0	
Federal disbursements	0	
Proceeds from sale of bonds	0	
Principal paid on bonds	0	
Interest paid on bond maturities	0	
Proceeds from issuance of notes payable	0	
Principal paid on notes payable	0	
Interest paid on notes payable	0	
Operating grants received	0	
Transfers in	0	
Transfers out	0	
Other	53,138,772	
Net cash provided(used) by non-capital financing activities		53,138,772
Cash flows from capital and related financing activities		
Proceeds from sale of bonds	0	
Principal paid on bonds	(48,150,000)	
Interest paid on bond maturities	0	
Proceeds from issuance of notes payable	0	
Principal paid on notes payable	0	
Interest paid on notes payable	0	
Acquisition/construction of capital assets	(1,748,605)	
Proceeds from sale of capital assets	0	
Capital contributions	0	
Other	0	
Net cash provided(used) by capital and related financing activities		(49,898,605)
Cash flows from investing activities		
Purchases of investment securities	(323,423,753)	
Proceeds from sale of investment securities	330,415,287	
Interest and dividends earned on investment securities	1,724,824	
Net cash provided(used) by investing activities		8,716,358
Net increase (decrease) in cash and cash equivalents		82,020,026
Cash and cash equivalents at beginning of year		23,052,585
Cash and cash equivalents at end of year		$ 105,072,611

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENED DECEMBER 31, 2009

STATEMENT D
(concluded)

Reconciliation of operating income(loss) to net cash provided(used) by operating activities:

Operating income(loss)		$ 40,810,134
Adjustments to reconcile operating income(loss) to net cash provided(used) by operating activities:		
Depreciation/amortization	2,731,416	
Provision for uncollectible accounts	798,548	
Other	0	
Changes in assets and liabilities:		
(Increase)decrease in accounts receivables, net	45,752,702	
(Increase)decrease in due from other funds	0	
(Increase)decrease in prepayments	10,703,411	
(Increase)decrease in inventories	0	
(Increase)decrease in other assets	(18,610)	
Increase(decrease) in accounts payable and accruals	(24,312,294)	
Increase(decrease) in compensated absences payable	22,080	
Increase(decrease) in due to other funds	0	
Increase(decrease) in deferred revenues	(3,554,879)	
Increase(decrease) in OPEB payable	0	
Increase(decrease) in other liabilities	(2,969,007)	
Net cash provided(used) by operating activities		$ 70,083,501

Schedule of noncash investing, capital, and financing activities:

Borrowing under capital leases(s)	$ -
Contributions of fixed assets	0
Purchases of equipment on account	0
Asset trade-ins	0
Other (specify)	0
Total noncash investing, capital, and financing activities:	$ -

The accompanying notes are an integral part of this financial statement.

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Notes to the Financial Statement
As of and for the year ended December 31, 2009

INTRODUCTION

Louisiana Citizens Property Insurance Corporation (LCPIC) was created by the Louisiana Legislature under the provisions of Louisiana Revised Statutes 22:2291 through 22:2372. The following is a brief description of the operations of LCPIC and includes the parish/parishes in which the Company is located:

LCPIC operates insurance plans which provide property insurance for residential and commercial property, solely for applicants who are in good faith entitled, but are unable, to procure insurance through the voluntary market. LCPIC operates residual market insurance programs, throughout the State of Louisiana (the State), designated as the Coastal Plan (succeeded the Louisiana Insurance Underwriting Plan) and the Fair Access to Insurance Requirements Plan (FAIR Plan) (succeeded the Louisiana Joint Reinsurance Plan). The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway and the FAIR Plan is for property insurance above the Intracoastal Waterway. LCPIC began operations on January 1, 2004, with its headquarters and corporate offices located in Metairie, Louisiana. It is governed by a board of directors consisting of 15 members, who serve without compensation. The Board consists of the commissioner of the Department of Insurance, the state treasurer, the chairman of the House Committee on Insurance, the chairman of the Senate Committee on Insurance or their designees, six representatives appointed by the governor, two members appointed by the commissioner of the Department of Insurance, and three members appointed by the governor.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local government entities. The GASB has issued a Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). This codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such principles.

The accompanying financial statements of LCPIC present information only as to the transactions of LCPIC as authorized by Louisiana statutes and administrative regulations.

Basis of Accounting refers to when revenues and expenses are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurements focus applied.

The accounts of LCPIC are maintained in accordance with applicable statutory provisions and regulations of the Division of Administration – Office of Statewide Reporting and Accounting Policy as follows:

Revenue Recognition
Revenues are recognized using the full accrual basis of accounting; therefore, revenues are recognized in the accounting period in which they are earned and become measureable.

Expense Recognition
Expenses are recognized on the accrual basis; therefore, expenses, including salaries, are recognized in the period incurred, if measureable.

B. BUDGETARY ACCOUNTING

Not applicable

C. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

1. DEPOSITS WITH FINANCIAL INSTITUTIONS

For reporting purposes, deposits with financial institutions include demand deposits. Further, LCPIC may invest in time certificates of deposit in any bank domiciled or having a branch office in the State of Louisiana; in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate accounts of federally or state chartered credit unions.

For the purposes of the Statement of Cash Flows and the balance sheet presentation, all highly liquid investments (including negotiable CDs and restricted cash and cash equivalents) and deposits (including nonnegotiable CDs and restricted cash and cash equivalents) with a maturity of three months or less when purchased are considered to be cash equivalents.

Deposits in bank accounts are stated at cost, which approximates market. Under state law these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These pledged securities are required to be held in the name of the pledging fiscal agent bank in a holding or custodial bank in the form of safekeeping receipts.

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Notes to the Financial Statement
As of and for the year ended December 31, 2009

GASB Statement 40, which amended GASB Statement 3, eliminated the requirement to disclose all deposits by three categories of risk. GASB Statement 40 requires only the disclosure of deposits that are considered to be exposed to custodial credit risk. An entity's deposits are exposed to custodial credit risk if the deposit balances are either, 1) uninsured and uncollateralized, 2) uninsured and collateralized with securities held by the pledging financial institution, or 3) uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the entity's name.

The deposits at December 31, 2009, consisted of the following:

	Cash	Nonnegotiable Certificates of Deposit	Other	Total
Balance per agency books (Balance Sheet)	$105,072,611	$0	$0	$105,072,611
Deposits in bank accounts per bank	$129,736,973	$0	$0	$129,736,973
Bank balances of deposits exposed to custodial credit risk:				
a. Deposits not insured and uncollateralized	$0	$0	$0	$0
b. Deposits not insured and collateralized with securities held by the pledging institution	$0	$0	$0	$0
c. Deposits not insured and collateralized with securities held by the pledging institution's trust department, or agency but not in the entity's name.	$0	$0	$0	$0

NOTE: The "Deposits in bank accounts per bank" will not necessarily equal the "Balance per Company books" due to outstanding items.

The following is a breakdown by banking institution, program, and amount of the "Deposits in bank accounts per bank" balances shown above:

Banking Institution	Program	Amount
Capital One, N.A.	Fair / Coastal Plans	$20,244,372
Region Bank	Fair / Coastal Plans	$109,492,601
Total		$129,736,973

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Notes to the Financial Statement
As of and for the year ended December 31, 2009

2. INVESTMENTS

LCPIC did not maintain investment accounts at 12/31/09 and at 6/30/10.

	Investments Exposed to Custodial Credit Risk		All Investments Regardless of Custodial Credit Risk Exposure	
Type of Investment	Uninsured, *Unregistered, and Held by Counterparty	Uninsured, *Unregistered, and Held by Counterparty's Trust Dept. or Agent Not in Entity's Name	Reported Amount Per Balance Sheet	Fair Value
Negotiable CDs	$ 0	$ 0	$ 0	$ 0
Repurchase agreements			28,298,272	28,298,272
U.S. Government Obligations**				
U.S. Agency Obligations				
Common & preferred stock				
Mortgages (including CMOs & MBSs)				
Corporate bonds				
Mutual funds				
Real estate				
External Investment Pool (LAMP)***				
External Investment Pool (Other)			155,017,421	155,017,421
Other:				
Total investments	$ 0	$ 0	$183,315,693	$183,315,693

* Unregistered – not registered in the name of the government or entity

** These obligations generally are not exposed to custodial credit risk because they are backed by the full faith and credit of the U.S. government.

*** LAMP investments should not be included in deposits AND should be identified separately in this table to ensure LAMP investments are not *double-counted on* the State level.

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Notes to the Financial Statement
As of and for the year ended December 31, 2009

3. CREDIT RISK, INTEREST RATE RISK, CONCENTRATION OF CREDIT RISK, AND FOREIGN CURRENCY RISK DISCLOSURES

A. Credit Risk of Debt Investments

Rating Agency	Rating	Fair Value
Moody's	AA2	$28,298,272
Standard & Poor's	AAAm	155,017,421
	Total	$183,315,693

B. Interest Rate Risk of Debt Investments

1. Listing by investment type, total fair value, and breakdown of maturity in years for each debt investment type.

	Investment Maturities (In Years)				
Type of Debt Investment	Fair Value	Less Than 1	1 - 5	6 - 10	Greater Than 10
U.S. Government obligations	$0	$0	$0	$0	$0
U.S. Agency obligations					
Mortgage backed securities					
Collateralized mortgage obligations					
Corporate bonds					
Other bonds					
Mutual bond funds					
Other	$183,315,693	$155,017,421			$28,298,272
Total debt investments	$183,315,693	$155,017,421	$0	$0	$28,298,272

2. LCPIC has no debt investments that are highly sensitive to changes in interest rates due to the terms (e.g. coupon multipliers, reset dates, etc.) of the investment.

C. Concentration of Credit Risk

The external investment pool consists of a U.S. Treasury obligation fund backed money market, and by definition is not considered a concentration of credit risk. However, LCPIC has invested 15% of total investments in a repurchase agreement with a federal bank.

Issuer	Amount	% of Total Investments
Societe Generale	$28,298,272	15%
Total	$28,298,272	

D. Foreign Currency Risk

Not applicable

4. DERIVATIVES (GASB 53)

None

5. POLICIES

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, LCPIC's deposits may not be returned to it. As of December 31, 2009, a total of $129,486,973 of LCPIC's bank balance was exposed to custodial credit risk. However, these deposits were secured by the pledge of securities owned by the fiscal agent banks.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, LCPIC will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. LCPIC follows the investment criteria as defined by state statute. The statute and LCPIC's investment policy require investment grade securities. LCPIC's investment policy also requires investments to be in the top two Securities Valuation Office ratings of the National Association of Insurance Commissioners. Of LCPIC's $28,298,272 investment in a repurchase agreement, the entire amount was exposed to custodial credit risk. However, the investment is secured by the pledge of government-backed securities owned by the counterparty and held by a mutually acceptable custodian bank.

Concentration of Credit Risk

LCPIC follows the investment criteria regarding concentration of credit risk as defined by state statute and LCPIC's investment policy. A 5% limitation is stated by both statute and investment policy, with exception to U.S. government securities.

Interest Rate Risk

LCPIC's deposits and investments interest rate risk is minimal in consideration of the short maturity of those deposits and investments.

Foreign Currency Risk

LCPIC does not invest in any foreign currency denominated investments.

6. OTHER DISCLOSURES REQUIRED FOR INVESTMENTS

a. Investments in pools managed by other governments or mutual funds

   Not applicable

b. Securities underlying reverse repurchase agreements

   Not applicable

c. Unrealized investment losses

   Not applicable

d. Commitments as of December 31, 2009, to resell securities under yield maintenance repurchase agreements

   Not applicable

e. Losses during the year to default by counterparties to deposit or investment transactions

   Not applicable

f. Amounts recovered from prior-period losses which are not shown separately on the balance sheet

Not applicable

Legal or Contractual Provisions for Reverse Repurchase Agreements

g. Source of legal or contractual authorization for use of reverse repurchase agreements

Not applicable

h. Significant violations of legal or contractual provisions for reverse repurchase agreements that occurred during the year

Not applicable

Reverse Repurchase Agreements as of Year-End

i. Credit risk related to the reverse repurchase agreements (other than yield maintenance agreements) outstanding at year end, that is, the aggregate amount of reverse repurchase agreement obligations including accrued interest compared to aggregate market value of the securities underlying those agreements including interest

Not applicable

j. Commitments on December 31, 2009 to repurchase securities under yield maintenance agreements

Not applicable

k. Market value on December 31, 2009 of the securities to be repurchased

Not applicable

l. Description of the terms of the agreements to repurchase

Not applicable

m. Losses recognized during the year due to default by counterparties to reverse repurchase agreements

   Not applicable

n. Amounts recovered from prior-period losses which are not separately shown on the operating statement

   Not applicable

Fair Value Disclosures (GASB 31)

o. Methods and significant assumptions used to estimate fair value of investments, if fair value is not based on quoted market prices

   Not applicable

p. Basis for determining which investments, if any, are reported at amortized cost

   Not applicable

q. For investments in external investment pools that are not SEC-registered, a brief description of any regulatory oversight for the pool

   Not applicable

r. Whether the fair value of your investment in the external investment pool is the same as the pool shares

   Yes

s. Any involuntary participation in an external investment pool

   No

t. If you are unable to obtain information from a pool sponsor to determine the fair value of your investment in the pool, methods used and significant assumptions made in determining fair value and the reasons for having had to make such an estimate

   Not applicable

u. Any income from investments associated with one fund that is assigned to another fund

No

Land and Other Real Estate Held as Investments by Endowments (GASB 52)

v. LCPIC owns no land or other real estate held as investments by endowments.

D. CAPITAL ASSETS – INCLUDING CAPITAL LEASE ASSETS

The fixed assets used in the Special Purpose Government Engaged only Business-Type Activities are included on the balance sheet of the entity and are capitalized at cost. Depreciation of all exhaustible fixed assets used by the entity is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation for financial reporting purposes is computed by the straight line method over the useful lives of the assets.

	Year ended December 31, 2009							
		Prior Period Adjustments						
	Balance 12/31/08	Adj. after submitted to OSRAP	Restatements	Adjusted Balance 12/31/08	Additions	Transfers*	Retirements	Balance 12/31/09
Capital assets not being depreciated								
Land	$0	$0	$0	$0	$0	$0	$0	$0
Non-depreciable land improvements								
Non-depreciable easements								
Capitalized collections								
Software Development in Progress								
Construction in progress								
Total capital assets not being depreciated								
Other capital assets								
Machinery and equipment	$611,586	$0	$0	$611,586	$119,715	$97,950	$0	$829,251
Less accumulated depreciation	($159,981)	$0	$0	($159,981)	($81,828)	($42,445)	$0	($284,254)
Total Machinery and equipment	$451,605	$0	$0	$451,605	$37,887	$55,505	$0	$544,997

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Notes to the Financial Statement
As of and for the year ended December 31, 2009

	Year ended December 31, 2009							
		Prior Period Adjustments						
	Balance 12/31/08	Adj. after submitted to OSRAP	Restatements	Adjusted Balance 12/31/08	Additions	Transfers*	Retirements	Balance 12/31/09
Buildings and improvements								
Less accumulated depreciation								
Total buildings and improvements								
Depreciable land improvements								
Less accumulated depreciation								
Total depreciable land improvements								
Infrastructure								
Less accumulated depreciation								
Total infrastructure								
Software (internally generated and purchased)	$13,266,816	$0	$0	$13,266,816	$1,628,890	($97,950)	$0	$14,797,756
Other intangibles	$0	$0	$0	$0	$0	$0	$0	$0
Less accumulated amortization – software	($8,557,119)	$0	$0	($8,557,119)	($2,649,588)	$42,445	$0	($11,164,262)
Less accumulated amortization – other intangibles	$0	$0	$0	$0	$0	$0	$0	$0
Total intangibles	$4,709,697	$0	$0	$4,709,697	($1,020,698)	($55,505)	$0	$3,633,494
Total other capital assets	$5,161,302	$0	$0	$5,161,302	($982,811)	$0	$0	$4,178,491

	Year ended December 31, 2009							
		Prior Period Adjustments						
	Balance 12/31/08	Adj. after submitted to OSRAP	Restatements	Adjusted Balance 12/31/08	Additions	Transfers*	Retirements	Balance 12/31/09
Capital Asset Summary:								
Capital assets not being depreciated	$0	$0	$0	$0	$ 0	$0	$0	$0
Other capital assets, at cost	$13,878,402	$0	$0	$13,878,402	$1,748,605	$0	$0	$15,627,007
Total cost of capital assets	$13,878,402	$0	$0	$13,878,402	$1,748,605	$0	$0	$15,627,007
Less accumulated depreciation	($8,717,100)	$0	$0	($8,717,100)	($2,731,416)	$0	$0	$11,448,516
Capital assets, net	$5,161,302	$0	$0	$5,161,302	($982,811)	$0	$0	$4,178,491

*Should be used only for those completed projects coming out of construction-in-progress to fixed assets.
**Enter a negative number with the exception of accumulated depreciation in the retirement and prior period adjustment column.

E. INVENTORIES

Not applicable

F. RESTRICTED ASSETS

Restricted assets in LCPIC at December 31, 2009, reflected at $183,315,693 in the non-current assets section on Statement A, consist of $28,298,272 in repurchase agreements and $155,017,422 in money market mutual funds. These restricted assets are held by a bond trustee for the repayment of the Company's emergency assessment revenue bonds issued in 2006 to cover the 2005 Plan Year Deficit resulting from Hurricanes Katrina and Rita.

G. LEAVE

1. COMPENSATED ABSENCES

LCPIC provides sick time benefits which are calculated based on length of service using the accrual system ("earn as you go"). Once an employee meets the threshold for a new earning rate, they will begin earning the new rate on their anniversary. Active full-time employees are eligible to earn sick time from their date of hire and are eligible to use their time once it is earned. Hours are computed based upon on a 35 hour week. Sick time can be taken in hours, whole, or half day increments. Upon separation of employment from the Company, any unused sick time will be forfeited and will result in non-payment.

2. COMPENSATORY LEAVE

LCPIC provides vacation time benefits which are calculated based on length of service using the accrual system ("earn as you go"). Once an employee meets the threshold for a new earning rate, they will begin earning the new rate on their anniversary. Active full-time employees are eligible to earn vacation time from their date of hire and are eligible to use their time once it is earned. Hours are computed based upon on a 35 hour week. Vacation days must be taken in whole or half day increments. Maximum vacation carry over at the end of the year is 5 days. Upon separation of employment from LCPIC, any unused vacation time will be paid to the employee.

The liability for unused vacation leave at December 31, 2009, computed in accordance with GASB Codification Section C60, is estimated to be $55,341.

In addition to the vacation detailed above, each full-time employee will receive 5 personal days. Based on calendar timing, up to two days may be designated by LCPIC as a holiday for every employee. Personal time can be taken in hours, whole, or half day increments. Unused personal days will not be carried over to the next year.

H. RETIREMENT SYSTEM

1. DEFINED BENEFIT PLAN

On September 1, 2008, Citizens froze their defined benefit pension plan and implemented a defined contribution pension plan. The defined benefit pension plan is administered by a third party who also maintains all of the pension assets. As of December 31, 2009 a plan deficit of $14,242 existed and LCPIC accrued the liability on the Balance Sheet as a part of other current liabilities. There are no other assets or liabilities on LCPIC's Balance Sheet.

2. DEFINED CONTRIBUTION PLAN

As of September 1, 2008 LCPIC implemented a defined contribution pension plan for all employees. LCPIC contributes 11% of each employee's wages to the defined contribution pension plan. LCPICs' contribution for the plan was $925,069 during the year 2009. LCPIC expensed the contributions each month and carries no assets or liabilities for the defined contribution pension plan on the Balance Sheet.

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Notes to the Financial Statement
As of and for the year ended December 31, 2009

I. OTHER POSTEMPLOYMENT BENEFITS

LCPIC provides postretirement medical insurance for qualified employees. In order for employees to qualify for the plan, they must be at least age 55 and have more than 14 years of service. As of December 31, 2009, there were no active employees who met the conditions to qualify for this benefit. At December 31, 2009, LCPIC had two retirees participating in the postretirement medical plan. LCPIC accrued a liability of $947,337 on the Balance Sheet for all employees.

J. LEASES

1. OPERATING LEASES

The total payments for operating leases during fiscal year 2009 amounted to $449,618. LCPIC leases office space at two separate locations, one in Metairie, Louisiana and one in Baton Rouge, Louisiana under separate lease arrangements that expire at July 31, 2014. A schedule of payments for operating leases follows:

Nature of lease	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Office Space	$443,375	$446,158	$449,026	$451,964	$264,666
Equipment	0	0	0	0	0
Land	0	0	0	0	0
Other	0	0	0	0	0
Total	$443,375	$446,158	$449,026	$451,964	$264,666

2. CAPITAL LEASES

Not applicable

3. LESSOR DIRECT FINANCING LEASES

Not applicable

4. LESSOR – OPERATING LEASE

Not applicable

K. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the entity for the year ended December 31, 2009:

	Year ended December 31, 2009				
	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009	Amounts due within one year
Notes and bonds payable:					
Notes payable	$0	$0	$0	$0	$ 0
Bonds payable	955,416,675	0	40,839,982	914,576,693	36,030,000
Total notes and bonds	955,416,675	0	40,839,982	914,576,693	36,030,000
Other liabilities:					
Contracts payable	0	0	0	0	0
Compensated absences payable	0	0	0	0	0
Capital lease obligations	0	0	0	0	0
Claims and litigation	0	0	0	0	0
OPEB payable	0	0	0	0	0
Other long-term liabilities	0	947,337	0	947,337	0
Total long-term liabilities	$955,416,675	$947,337	$40,839,982	$915,524,030	$36,030,000

L. CONTINGENT LIABILITIES

PENDING LITIGATION

LCPIC is a defendant in three class action suits resulting from Hurricanes Katrina and Rita. In one of the class action suits, *Oubre v. Louisiana Citizens Property Insurance Corporation*, LCPIC received an adverse decision which resulted in a $95 million judgment. LCPIC is appealing the judgment and in August 2009, paid plaintiffs' attorneys $6 million to avoid filing an appeal bond. LCPIC has a realistic belief that the judgment will be overturned or the case settled for an amount significantly less than $95 million. LCPIC has reserves in its Balance Sheet that are deemed to be sufficient to cover the expected outcome of all class action suits.

ALL OTHER CONTINGENCIES

Various lawsuits against LCPIC have arisen in the course of the company's business. LCPIC has established appropriate reserves for all law suits. The Company has no asset that it considers to be impaired.

M. RELATED PARTY TRANSACTIONS

Not applicable

N. ACCOUNTING CHANGES

None

O. IN-KIND CONTRIBUTIONS

Not applicable

P. DEFEASED ISSUES

Not applicable

Q. REVENUES – PLEDGED OR SOLD (GASB 48)

1. PLEDGED REVENUES

On April 11, 2006, LCPIC offered for public sale $678,205,000 in Series 2006B and $300,000,000 in Series 2006C Special Assessment Revenue Bonds. The bonds were issued to eliminate the 2005 plan year deficit resulting from hurricanes Katrina and Rita. The bonds and interest will be payable from emergency assessment revenues during 2007 and subsequent years. The Series 2006B bonds bear variable interest rates from 4% - 5.25% per annum and the Series 2006C bonds will bear interest at an Auction Mode Rate resulting from auction procedures. The Series 2006B bonds were sold at a premium of $33,828,701, which is being amortized using the interest rate method and reported as a component of interest expense in the financial statements. On March 31, 2009, the Series 2006C Variable Auction Rate Bonds were refinanced into fixed rate bonds. Interest rates on the bond periodically adjust over time from 2.75% to 6.75%. The debt service requirements listed below reflect the new fixed rate bonds.

Bond activity for the year ended December 31, 2009, was as follows:

	Balance December 31, 2008	Increases	Decreases	Balance December 31, 2009
Special Assessment Revenue Bonds:				
Series 2006B	$678,205,000	$0	$31,800,000	$646,405,000
Series 2006C	300,000,000	0	16,350,000	$283,650,000
Total Outstanding Principal on Bonds	978,205,000	0	48,150,000	930,055,000
Bond Premium on Series 2006B	25,361,675		1,066,307	24,295,368
Bond Discount on Series 2006C	0		3,743,675	(3,743,675)
Total Special Assessment Revenue Bonds	$1,003,566,675	$0	$52,959,982	$950,606,693

Debt service requirements at December 31, 2009, were as follows:

Year Ending	Series 2006B Revenue Bonds		Series 2006C Revenue Bonds		Total Debt Service	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest
2010	$34,360,000	$31,363,825	$1,670,000	$17,226,419	$36,030,000	$48,590,244
2011	35,080,000	29,677,813	2,745,000	17,160,193	37,825,000	46,838,006
2012	37,735,000	27,927,663	1,800,000	17,090,893	39,535,000	45,018,556
2013	39,600,000	25,986,075	1,860,000	17,030,219	41,460,000	43,016,294
2014 to 2018	227,005,000	97,180,744	13,835,000	83,526,200	240,840,000	180,706,944
2019 to 2023	272,625,000	33,083,113	34,925,000	79,189,956	307,550,000	112,273,069
2024 to 2027			226,815,000	22,565,072	226,815,000	22,565,072
Total	$646,405,000	$245,219,233	$283,650,000	$253,788,952	$930,055,000	$499,008,185

2. FUTURE REVENUES REPORTED AS A SALE

Not applicable

R. GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS (GRANTS)

Not applicable

S. VIOLATIONS OF FINANCE-RELATED LEGAL OR CONTRACTUAL PROVISIONS

Not applicable

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Notes to the Financial Statement
As of and for the year ended December 31, 2009

T. SHORT-TERM DEBT

Not applicable

U. DISAGGREGATION OF RECEIVABLE BALANCES

Not applicable

V. DISAGGREGATION OF PAYABLE BALANCES

Not applicable

W. SUBSEQUENT EVENTS

None

X. *SEGMENT INFORMATION*

Not applicable

Y. DUE TO/DUE FROM AND TRANSFERS

Not applicable

Z. LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Liabilities payable from restricted assets in LCPIC at December 31, 2009, reflected at $950,606,693 in the liabilities section on Statement A, consist of $36,030,000 in bonds payable (current liabilities), and $914,576,693 in bonds payable (noncurrent liabilities).

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Notes to the Financial Statement
As of and for the year ended December 31, 2009

AA. PRIOR-YEAR RESTATEMENT OF NET ASSETS

The following adjustments were made to restate beginning net assets for December 31, 2009.

Ending net assets 12/31/08 as reported to OSRAP on PY AFR	*Adjustments to ending net assets 12/31/08 (after AFR was submitted to OSRAP) + or (-)	Restatements (Adjustments to beginning Balance 01/01/09) + or (-)	Beginning Net assets @ 01/01/09 as restated
($946,861,429)	$3,894,557	$0	($942,966,872)
($942,966,872)	($960,344)	$0	($943,927,216)

*Include all audit adjustments accepted by the agency or entity.

Both adjustments to the ending net assets resulted from audit adjustments accepted by LCPIC. The first adjustment was to increase nonoperating revenue by reversing a receivable LCPIC recorded for emergency assessments collected. The second adjustment was to reduce operating revenue for system suppressed accounts receivable payments.

BB. NET ASSETS RESTRICTED BY ENABLING LEGISLATION (GASB STATEMENT 46)

Not applicable

CC. IMPAIRMENT OF CAPITAL ASSETS & INSURANCE RECOVERIES

Not applicable

DD. EMPLOYEE TERMINATION BENEFITS

Not applicable

EE. POLUTION REMEDIATION OBLIGATIONS

Not applicable

FF. AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

Not applicable

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
SCHEDULE OF PER DIEM PAID TO BOARD MEMBERS
DECEMBER 31, 2009
(Fiscal close)

Name	Amount

**********NOT APPLICABLE - PER LOUISIANA RS:2294(D)**********

Note: The per diem payments are authorized by Louisiana Revised Statute, and are presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Legislature

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2009
(Fiscal close)

Issue	Date of Issue	Original Issue	Principal Outstanding 6/30/PY	Redeemed (Issued)	Principal Outstanding 6/30/CY	Interest Rates	Interest Outstanding 6/30/CY

**********NOT APPLICABLE***********

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
SCHEDULE OF BONDS PAYABLE
DECEMBER 31, 2009
(Fiscal close)

Issue	Date of Issue	Original Issue	Principal Outstanding 12/31/PY	Redeemed (Issued)	Principal Outstanding 12/31/CY	Interest Rates	Interest Outstanding 12/31/CY
Series 2006B	4/11/2006	678,205,000	678,205,000	31,800,000	646,405,000	Various*	0
Series 2006C	4/11/2006	300,000,000	300,000,000	16,350,000	283,650,000	Various*	0
Unamortized Discounts and Premiums Series:							
Series 2006B			25,361,675	1,066,307	24,295,368		
Series 2006C				3,743,675	(3,743,675)		
Total		978,205,000	1,003,566,675	52,959,982	950,606,693		0

*Interest rate varies upon bond maturity date.

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
SCHEDULE OF CAPITAL LEASE AMORTIZATION
FOR THE YEAR ENDED DECEMBER 31, 2009

Ending:	Payment	Interest	Principal	Balance

**********NOT APPLICABLE**********

SCHEDULE 4-A

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
SCHEDULE OF NOTES PAYABLE AMORTIZATION
For the Year Ended December 31, 2009

Fiscal Year Ending:	Principal	Interest

**********NOT APPLICABLE**********

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
SCHEDULE OF BONDS PAYABLE AMORTIZATION
For the Period Ending December 31, 2009

Fiscal Year Ending:		Principal		Interest
2010	$	38,754,047.26	$	48,590,243.78
2011	$	40,396,175.63	$	46,838,006.28
2012	$	41,944,735.76	$	45,018,556.28
2013	$	43,691,258.95	$	43,016,293.78
2014	$	45,581,720.11	$	40,851,912.53
2015	$	47,634,825.35	$	38,589,034.40
2016	$	49,713,134.05	$	36,254,840.64
2017	$	51,890,504.67	$	33,798,931.26
2018	$	54,188,408.24	$	31,212,225.01
2019	$	56,609,334.56	$	28,491,506.26
2020	$	59,146,221.34	$	25,630,168.76
2021	$	61,824,352.49	$	22,616,950.01
2022	$	64,643,745.01	$	19,448,362.51
2023	$	67,680,760.71	$	16,086,081.26
2024	$	71,144,146.32	$	12,177,421.88
2025	$	75,581,680.07	$	7,695,931.25
2026	$	80,181,642.29	$	2,691,718.75
Total	$	950,606,692.82	$	499,008,184.64

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
SCHEDULE OF CURRENT YEAR REVENUE AND EXPENSES
BUDGETARY COMPARISON OF CURRENT APPROPRIATION
NON-GAAP BASIS
DECEMBER 31, 2009

	Financial Statement	Adjustments	ISIS Appropriation Report - 08/14/09	Revised Budget	Variance Positive/(Negative)
Revenues:					
Intergovernmental *Revenues*					
Federal Funds					
Sales of Commodities and Services					
Other					
Total appropriated revenues					
			**********NOT APPLICABLE**********		
Expenses:					
Cost of goods sold					
Personal services					
Travel					
Operating services					
Supplies					
Professional services					
Other charges					
Capital outlay					
Interagency transfers					
Debt service					
Other:					
Bad debts					
Depreciation					
Compensated absences					
Interest expense					
Other (Identify)					
Total appropriated expenses					
Excess (deficiency) of revenues *over expenses (budget basis)*					

Note: Schedule 5 is only applicable for those entities whose budget is appropriated by the legislature.

SCHEDULE 5

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
BUDGETARY COMPARISON OF CURRENT APPROPRIATION
NON-GAAP BASIS
DECEMBER 31, 2009

Excess (deficiency) of revenues over expenses (budget basis)	$	-
Reconciling items:		
Cash carryover		
Use of money and property (interest income)		
Depreciation		
Compensated absences adjustment		
Capital outlay		
Disposal of fixed assets		
Change in inventory		
Interest expense		
Bad debts expense		
Prepaid expenses		
Principal payment		
Loan principal repayments included in revenue		
Loan disbursements included in expenses		
Accounts receivable adjustment		
Accounts payable / estimated liabilities adjustment		
Other		
Change in net assets	$	-

**********NOT APPLICABLE**********

Note: Schedule 5 is only applicable for those entities whose budget is appropriated by the legislature.

STATE OF LOUISIANA
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
COMPARISON FIGURES

To assist OSRAP in determining the reason for the change in financial position for the State, please complete the schedule below. If change is greater than $3 million, explain the reason for the change.

	12/31/2009	12/31/2008	Difference	Percentage Change
1) Revenues	$ 295,262,573	$ 320,795,730	$ (25,533,157)	-7.96%
Expenses	$ 220,661,008	$ 301,838,006	$ (81,176,998)	-26.89%
2) Capital assets	$ 4,178,491	$ 5,161,302	$ (982,811)	-19.04%
Long-term debt	$ 914,576,693	$ 955,416,675	$ (40,839,982)	-4.27%
Net assets	$ (846,494,356)	$ (943,927,216)	$ 97,432,860	-10.32%

Explanation for change: *Decrease in revenues were caused by fewer policies written due to the success* of LCPIC's depopulation program, and a smaller impact from the change in deferred revenues. Expenses decreased due to the absence of catastrophe occurrences in 2009. The decrease in long-term debt is due to the principal paid in 2009. The increase in net assets is from net income, assessment income exceeding debt service costs on Katrina bonds, and tax exempt surcharge collected on LCPIC policies.

SCHEDULE 16 - COOPERATIVE ENDEAVORS
FOR THE YEAR ENDED DECEMBER 31, 2009

Agency Number
Agency Name: Louisiana Citizens Property Insurance Corporation

Contract Financial Management System #	Parties to the Coop	Brief Description of the Coop	Multi-year, One-time, or Other Appropriation	Original Amount of Coop, Plus Amendments, if any	Date of Original Coop was Effective	End Date of Coop, as Amended, if Applicable	Funding Source per Coop Agreement based on Net Liability as of December 31, 2008							Paid - Inception to Date as of 12/31/2008	Net Liability as of 12/31/2008
							100% State	100% SGR	100% Stat. Ded.	100% G.O. Bonds	100% Federal	100% IAT	100% Combination		
					*********NOT APPLICABLE*********										

SCHEDULE 16

Report on Internal Control and Compliance

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Governors of
Louisiana Citizens Property Insurance Corporation
State of Louisiana
Metairie, Louisiana

We have audited the financial statements of the business-type activities of the State of Louisiana Citizens Property Insurance Corporation (the "Company"), a component unit of the State of Louisiana, as of and for the year ended December 31, 2009 which collectively comprise the Company's basic financial statements as listed in the table of contents and have issued out report thereon dated September 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United Stated.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and recommendations as Findings 2009-03 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and recommendations as Finding 2009-01 and 2009-02 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are also described in the accompanying schedule of findings as Findings 2009-04 and 2009-05.

We noted certain matters that we reported to management of the Company in a separate letter dated September 22, 2010.

The Company's response to the findings identified in our audit is described in the accompanying schedule of management's corrective action plan and response to the findings and recommendations. We did not audit the Company's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Company's management, Board of Governors and members of the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Carr, Riggs & Ingram, LLC

New Orleans, Louisiana
September 22, 2010

Schedule of Findings and Recommendations

The deficiencies described in the accompanying schedule of findings and recommendations relative to the audit of the Company for the year ended December 31, 2009, were considered to be significant deficiencies, material weaknesses in internal control over financial reporting or a and compliance issue as designated by each section heading.

Section 1: Findings Relating to the Financial Statements – Significant Deficiencies

Finding 2009-01
Inadequate Documentation of Information Systems

This item is a repeat of a portion of prior year finding as described in the Auditee's Summary of Prior Audit Findings as Prior Year 2008-14, and remains unresolved for DataMart. While LPMS is scheduled to be taken out of service in 2010, LCPIC should require i4 properly document the code for DataMart.

Finding 2009-02
Inadequate Program/System Change Controls

A change and patch management policy is integral to maintain control and configuration changes for not only the core application systems, but the hardware and operating systems they reside on. Stable and managed production environments require that implementation of changes be predictable and repeatable, following a controlled process that is defined, monitored, and enforced. We evaluated program and system change controls for both applications and operating systems.

Furthermore, the Company has outsourced coding requirements to third party vendors. As such the vendor controls in this area should be considered critical to the Company's IT operations as the Company relies heavily on the expertise of service providers to accomplish IT functions and it was recommended in prior audits that management obtain documentation for controls evaluations such as SAS 70s and SSAE 16 by the vendors used. LCPIC should establish controls requirements for each of the vendors involved and conduct its own audits or request the vendor obtain independent third party independent evaluations. This should be accomplished as soon as possible.

The Company's operating system updates will be controlled by Windows Update Server; however, this process is not yet complete. A haphazard sample of 10 workstations was selected to review update status for security patches. Three of the 10 workstations had not been updated for greater than 60 days and 1 of the 3 was greater than 180 days. The Company should finalize WSUS implementation.

During testing we noted workstations have not been properly updated with the latest patches and updates from Microsoft. The Company should finalize the setup of WSUS to push and monitor operating system updates.

Section 2: Findings Relating to the Financial Statements – Material Weaknesses

Finding 2009-03
Claims Reserves

During our audit procedures, we reviewed claims and the processes followed to record claims and establish reserves related to expected losses and loss adjustment expense. We identified instances where claims had been closed but still had loss adjustment expense reserves in place; instances where the initial claim reserves were set according to the Company policy but could not determine the basis for which the reserve was established when a suit was filed against the Company on the claim; instances where claim files included an order of dismissal prior to year-end with the files remaining open at year end and reserves not cleared out completely at year end; and instances where loss reserves were in excess of final payment made to settle the claims and with no justification for the amount reserved. Furthermore, the reserved amounts greatly exceeded procedure limits outlined in policies provided to claims processors used by the Company.

While some of these claims did relate to those resulting from Katrina and Rita, many of the claims reviewed were newer claims originating in 2009.

We recommend that the Company implement a stringent review process with more structure in areas such as changes made to the initial reserve recorded by the Service Providers, a more detailed review of reserves that exceed a pre-established threshold set by the Company every 30 days as stipulated in the Company's policies and procedures, and more control of those claims that have entered into litigation status and exceeded the pre-established reserve threshold set by the Company.

Furthermore, a process should be established to ensure that claims that have been closed are closed within the system in a timely manner and that the related loss and loss adjustment expense reserve is eliminated timely.

Finally, all persons involved in the claims and related accounting process should attend various educational training programs including in-house classes and external professional classes in order to keep current on issues related to their duties. Also, through background checks and the interview process, the company and service provider should ensure that they hire individuals with proper backgrounds for their job positions.

Section 3: Findings Relating to Compliance Issues

Finding 2009-04
Lack of Approval for 2009 Emergency Assessment Rate

During our audit procedures, we noted that the Company did not obtain proper approval for the 2009 emergency assessment rate as follows:

Directive 198, as issued by the Louisiana Department of Insurance on August 29, 2007, rescinds in its entirety Directive 191 dated December 22, 2005, and mandates the following key requirements as they pertain to Emergency Assessments: subject to verification by the

Louisiana Department of Insurance ("DOI"), the Company shall annually determine whether an Emergency Assessment will be levied, and notify assessable insurers as to the assessment percentages.

Per our review of documentation and request of the Louisiana DOI, the Company did not obtain approval from the DOI for the 2009 emergency assessment until July 20, 2010. Therefore, the Company was not in compliance with LSA-R.S. 22:2307(E) for the year ended December 31, 2009. Furthermore, the calculation for the 2009 emergency assessment rate was not mathematically accurate per the DOI's recalculation.

We recommend that the Company follow the prescribed steps in the necessary order as outlined so as to be in compliance with state statute.

Finding 2009-05
Noncompliance with State Eligibility Requirements

The Company did not follow state law to ensure that all applicants were eligible to be insured by Louisiana Revised Statute (R.S.) 22:2302(A) which provides that any person having an insurable interest in insurable property and who has been denied coverage by one or more insurers authorized to write property insurance in this state is eligible to apply for insurance through the Company directly or through a representative. R.S. 22:2302(A) further provides that every application form shall require that the applicant disclose each insurance carrier who denied property insurance coverage to the applicant.

The Company's new EPIC system was implemented subsequent to year end and requires a decline from another insurance company in order to complete an application for the Company's policy. The Company expects to have all personal line policies, which represent the majority of the policies written by the Company, fully transitioned to the EPIC system by April 1, 2011. The commercial line conversion will follow and is expected to be completed by the end of 2011. We recommend that the Company implement procedures to ensure that applicable State eligibility requirements are met for all applicants and properly documented in the interim.

Auditee's Corrective Action Plan

Louisiana Citizens Property Insurance Corporation

Auditee's Corrective Action Plan
Findings Related to Financial Statements
For the Year Ended June 30, 2010

Finding 2009-01
Inadequate Documentation of Information Systems

Management Response and Corrective Action Planned:
Preliminary documentation has been created for the EPIC system. We will continue the development of the documentation in the first 6 months of 2011. The documentation process for Data Mart is underway and preliminary documentation should be completed by the end of 2010. In 2011 we will continue to edit, refine, and organize the documentation with the goal of developing a published format by the end of 2011.

Finding 2009-02
Inadequate Program/System Change Controls

Management Response and Corrective Action Planned:
We have established a process to better manage change control for business requests and program changes in the EPIC system and we will continue to improve the process as we move forward with the EPIC conversion. In September 2010 we implemented automated control update of our desktop management. The set up of WSUS is complete as of September 2010.

Finding 2009-03
Claims Reserves

Management Response and Corrective Action Planned:
We have improved our claim reserve process with our in-house and service provider associates. We produce a monthly report to monitor all unusual movements in our claim reserves and to ensure any reserve on all closed claims is eliminated. We are auditing our service providers each month and a significant portion of the audit is focused on proper documentation of changes to claim reserves and adherence to the LCPIC claim reserve policies and procedures. The results of the monthly claim audits are shared with LCPIC management and the service providers. Formal meetings are held each quarter to review the audit results and discuss process improvements.

Finding 2009-04
Lack of Approval for 2009 Emergency Assessment Rate

Management Response and Corrective Action Planned:
As noted by the auditors, we were late in obtaining approval from the Department of Insurance for the 2009 emergency assessment rate. However, the 2009 assessment rate was approved by the LCPIC Board of Directors on a timely basis as required. We had some new employees managing the assessment process and they were not aware of the DOI approval requirement. The calculation differences noted in the audit were very minor. The 2010 and 2011 assessment rates were approved in a timely manner by both the LCPIC Board of Directors and the Department of Insurance.

Finding 2009-05
Noncompliance with State Eligibility Requirements

Management Response and Corrective Action Planned:
As noted by the auditors, our new policy management (EPIC) requires evidence of decline from another insurance company in order to complete the application for insurance from LCPIC. As of March of 2010, all new policies are processed on the EPIC system and require the evidence of declination by a private insurance carrier.

Auditee's Summary Schedule of Prior Audit Findings

Finding 2008-01
Lack of Controls Over Administering and Monitoring User Access

Louisiana Citizens Property Insurance Corporation ("the Company") granted employees and non-employees excessive, inappropriate access to the Louisiana Plans Management System (LPMS) and Fiserv, which allowed users the access to make changes to critical data, exposing the Company to potential error and fraud. LPMS is used for maintaining insurance policies and claims processing. Fiserv is the general ledger system used for disbursements and financial statement preparation. The Company lacked proper controls over the granting and termination of user IDs in its systems, lacked proper segregation of duties, and did not properly review and monitor accesses granted.

<u>LPMS</u>

As of May 2009, 137 active user IDs were granted "Consultants-SBS" role in the LPMS database, allowing users the ability to make changes to any data in the system, including, but not limited to, policies, agents, claims, claim payments, percentage commissions paid to

Of the 137 users with IDs with these broad access rights:

- 77 belonged to Company employees;
- 15 could not initially be identified by the Company; however, after several months the Company identified seven (two Property Insurance Association of Louisiana (PIAL) employees, two PIAL employees who terminated, two Department of Insurance employees, and an American Insurance Association Board member) and labeled the other eight IDs as former temporary employees of the Company;
- 22 were generic IDs;
- 14 belonged to the service providers Bankers Insurance Group and First Premium Insurance Group who are contractors assigned policies for underwriting and claims administration;
- 7 belonged to employees of PIAL, three of whom have terminated employment with PIAL; and
- 2 belonged to terminated employees of the Company. At the test date, one employee had been terminated for nine months and the other for 12 months.

In addition, employees and nonemployees with LPMS user IDs were assigned the "SBS Consultants" job title that enables the user to approve claims over $25,000 using the LPMS claim approval screen. These included four unidentified users; one employee who does not have a valid business need; five generic user IDs; one terminated PIAL employee; and one service provider user.

We could not determine who had access to one generic user ID titled "Mail Clerk Claims" that was inappropriately assigned the "Claims Manager" job title and can approve claim payments totaling $25,000 or less and approve all loss adjustment expenses. This user ID has existed since January 2006.

Fiserv

Within the Company's accounting section, job functions assigned and accesses granted to employees did not appropriately segregate the functions of authorization, data entry, generation, and review of disbursements. Because of excessive access granted to the Fiserv application, users were allowed access to make unauthorized changes to accounting data that included, but were not limited to, payee names, addresses, disbursement amounts, and journal entries. Of the 18 active user IDs:

- 14 had full administrative access allowing any change in the Fiserv system and 13 of the 14 also had full access to LPMS through the Consultants-SBS role, and
- 4 had profiles with rights to change vendors, claimants, and disbursement data and three of the four also had full access to LPMS through the Consultants-SBS role.

In addition, all 13 employees in the accounting section plus seven additional users had access to a shared directory on the network that gave them the ability to alter bank reconciliations and unencrypted batch files used to post payments and process disbursements.

The Company's management allowed numerous users to work around LPMS malfunctions in the period surrounding hurricanes Katrina and Rita in 2005 by assigning the Consultants-SBS role, and thereafter continued to grant this access because of a lack of formal procedures and a limited technical knowledge of LPMS. The Company has not adequately defined its security administrator function and has no formal written security policies and procedures for granting user IDs. In addition, the Company does not have an adequate definition of authority and responsibility to use as a basis for defining security permissions and roles and for designing forms to be used to approve access rights.

Status of Finding 2008-01 – Partially Resolved

LPMS uses both role based and "job title" base to segregate user access. User access is granted by LPMS by request of the Company. The system is set for retirement in 2010. A SAS70 has not been completed by LPMS for this system. Due to system retirement it will be difficult to have the vendor complete a SAS70 at this time. LPMS access controls can only be tested using an "as of" date. The system access controls cannot be properly evaluated for the 2009 year. As a result the financial auditors will evaluate manual compensating controls in these areas. The LPMS access controls were evaluated in May 2010 by Carr, Riggs and Ingram. Although the system is set for retirement it will be in use until the EPIC system is fully operational. We have informed Management controls should be implemented in all systems going forward to properly maintain and evaluate user access. Current controls in place at ITBD were requested. Company personnel completed a process for removal of rights for all accounts including high risk accounts to provide those rights only to individuals which are required to complete their job functions. We noted the following items which should be addressed by Company management.

High risk access roles - SBS-Consultants- Can approve a check for any amount. All users and all roles with job titles were obtained.

We noted seven (7) accounts with this role. Inquires were made as to the validity and need for these accounts. The following information was provided updates are appropriate.

Username	Date added	Explanation
catloss	10/20/2008	This has been deactivated 5/12/2010
CCMelancon	8/16/2007	Since all other users were removed, the Company kept in case a task was not able to be completed by another user. Would be able to verify what task was and assign that task to new role.
crishelpertool	8/8/2006	Since all other users were removed the Company kept in case a task was not able to be completed by another user. Would be able to verify what task was and assign that task to new role.
ericahelpertool	1/4/2008	This role has been changed to Helper Tool 5/12/2010
LPMS_System	1/4/2008	lpms_system login needs to stay with the role of "SBS-Consultant" because this user is used for all of the nightly processing applications such as: Batch Print, Accounting Console and the FTP Transfer process.
pennyhelpertool	9/26/2005	This role has been changed to Helper Tool 5/12/2010
apbackup	1/4/2008	This role has been requested to deactivate 5/13/2010

Claims Manager (Service Provider Claims Managers) Can approve checks that are less than $25,000 and the cumulative amount paid on the claim is less than $25,000

A listing of all service provider employees with access to LPMS was submitted to each service provider for review to ensure all users are current and active employees.

First Premium-1 user has a "Claims Manager" right that is no longer with the company. Two generic users have "Claims Manager" rights. These users should be removed.

22 of 88 users were no longer with the company but had minimal rights. These users should be removed.

24 generic user names are present. Generic users should be used with great caution and removed if not necessary.

Bankers- 3 users have "Claims Manager" rights that are no longer with the company. Two generic users have "Claims Manager" rights. These users should be removed.

51 of 134 users were no longer with the company but had minimal rights. These users should be removed.

37 generic user names are present. Generic users should be used with great caution and removed if not necessary.

"Data Entry" can request claim checks but must be approved by either the Claims Manager or Citizens Claims manger depending on the amount of the request and the total amount paid on the claim to date.

Review of high risk user titles - "Citizens Claim Manager" and "Citizens Assistant Claims Manager"- Can approve checks that are greater than $25,000.00 but less than $100,000.
Can approve checks for claims that have a cumulative paid amount on the claim greater than $25,000.
Can approve claim checks that do not have a coverage associated with the payment.

One user has "Citizens Claim Manager" title and one user has "Citizens Assistant Claims Manger" title. Per Management these users are appropriate.

FiServ-Pro Financials:
The system will allow passwords of 1 character. In addition the program does not require regular password changes. This should be considered a high risk and reviewed by inquiry of each user to ensure proper password complexity is used and passwords are changed every 90 days.

Finding 2008-02
Lack of Monitoring Over Service Providers

The Company did not perform adequate monitoring or internal audits on the procedures, controls, and transactions processed at the three service providers that it used to perform insurance policy administration and the related claims services for policyholders. The Company also did not obtain Type II, Statement on Auditing Standards (SAS) 70 reports on its service providers. Good internal controls require an entity to monitor, review, tests and evaluate the transactions controlled or affected by its service providers to ensure data integrity, completeness, and accuracy. One means of gaining assurance on the controls within a service organization is through Type II, SAS 70 reports.

The Company's employees were not required by internal policy to review transactions in amounts less than the Service Provider Authority thresholds, which include general claims under $25,000 and catastrophic claims up to $75,000. The claims that were less than the service provider's authority threshold comprised 60,547 out of 61,229 claims (99%) in 2008. The lack of review and approval of these transactions by the Company's employees increases the risk that there may be errors or fraudulent activity related to claims loss payments within the service provider's authority threshold amounts and could result in misstatements to the financial statements. This risk emphasizes the need for monitoring of the service centers.

Although the contracts with the service providers do not require Type II, SAS 70 reports, the contracts do provide that the Company can perform operational audits at the service centers. The Company did not conduct operational audits of the service centers in 2008. Although the Company did contract for some review services in 2009 after the fiscal year under audit, those procedures were not an adequate substitute for obtaining Type H, SAS 70 reports on the service providers.

The Company placed its faith in the performance of the service providers without externally monitoring that performance. Failure to perform sufficient operational audits or to obtain SAS 70, Type II reports on each of its service providers results in the inability to ensure that procedures and controls are being applied in accordance with the Company's intentions and regulations and increases the risk that contract terms are not being followed, which could result in errors, overpayments, financial misstatements, or fraud.

Status of Finding 2008-02 – Partially Resolved

All service providers have agreed to obtain SAS 70 Type II reports, which are anticipated to be completed by December 31, 2010 and the Company has determined that similar reports will be required for all future service providers associated with claims processing and policy administration. Furthermore, the Company has implemented procedures to ensure adequate monitoring of activities conducted by service providers.

Finding 2008-03
Inadequate Loss Reserve Development Process

The Company does not have an adequate process to develop loss and loss adjustment expense (LAE) reserve liabilities. The Company is required to estimate the ultimate cost of settling insurance claims, including costs related to claims that were incurred but not reported, using past experience adjusted for current trends. Management is responsible for its estimates and the implementation of controls to ensure that the data used in deriving these estimates are complete and accurate. The Company engages an outside actuary to assist in the estimation of the loss and LAE reserve liabilities based on data provided by the Company.

Although an unfavorable judgment of $95 million was issued to the Company on March 20, 2009, on a class action suit related to prior years' hurricane claims, there was no evidence that the Company made any provision in the reserve amount for this case or other pending class action suits and mass joinders. The appointed actuary's Statement of Actuarial Opinion as of December 31, 2008, noted that the loss reserves carried by the Company does not include provision for possible unfavorable outcomes concerning four pending class action suits and 16 mass joinders. The actuary's opinion states, in part, "The scope of my opinion does not include any provisions for these (or possible future) class action suits and mass joinders. Therefore, my opinion is qualified in this regard." In addition, during tests of loss claims and loss reserves, auditors did not find any items within the recorded reserves tested that made provision for amounts related to these class action suits and mass joinders.

Audit procedures identified various errors and deficiencies in the data that was relied on by the appointed actuary to develop the estimate of reserves at December 31, 2008, as follows:

1. Case basis loss reserves related to system claims do not appear to include all appropriate amounts at year-end. Auditors ran a query on loss payments issued in the first three months of 2009 related to claims with (1) a loss occurrence date prior to the end of 2008; (2) a loss report date prior to the end of 2008; and (3) no reserve amount in the outstanding claim register. This procedure identified 4,257 payments totaling approximately $23 million. A review of the transactions identified errors indicating that case basis loss reserves did not include all appropriate claims at December 31, 2008. Specific errors included:

    - Reserves associated with several claims appear to have been closed out as a result of advance (partial) payments coded as "final" payments in the claims system.
    - Reserves were not reestablished for claims with payments that were issued and voided prior to year-end and were reissued subsequent to year-end.
    - Reserve balances were not established for certain claims although documentation in the claim file at December 31, 2008, indicated that the amount of the loss was known.
    - Amounts related to off-system, manually processed claims were excluded from direct case basis loss reserves for all accident years. At December 31, 2008, these amounts were approximately $2.8 million for case basis loss reserves and approximately $60,000 for LAE reserves.

2. Case basis loss reserve balances included approximately $1.4 million on claims that were closed and had no loss reserves as of December 31, 2008.

3. The Company did not appropriately classify paid LAE and LAE case reserves as defense and cost containment (DCC) expenses or adjusting and other (A&O) in accordance with Statement of Statutory Accounting Principle (SSAP) No. 55. As a result, DCC paid and case basis reserve data relied on by the appointed actuary is inaccurate.

4. During a review of case reserves related to litigated claims, the following discrepancies between reserves recorded by the Company and the value of the loss represented to the auditors by the Company's outside legal counsel were identified:

    - One claim with a recorded reserve at December 31, 2008, of $220,000 was settled in 2007 and therefore should not have had a reserve balance at December 31, 2008.
    - Two claims with recorded reserves of $16,000 had probable outcomes estimated in the range of $700,000 and $1.3 million based on information from legal counsel.
    - Seven claims with total recorded reserves at December 31, 2008, of approximately $2 million were settled or tentatively settled in 2009 for approximately $334,000. The Company's recorded reserves for these seven cases ranged from $206,000 to $450,000 per claim, and the settlement (or tentative settlement) amounts ranged from $5,000 to $130,000 per claim.
    - Four claims with total recorded reserves of $1.2 million had probable outcomes estimated in the range of $290,000 to $400,000 based on information from legal counsel.

These conditions are the result of inadequacies in the Company's information systems and inadequate procedures to ensure that loss information is complete and accurate. Furthermore, the Company is not timely updating case reserves to reflect the best available information.

Failure to maintain accurate and complete information related to losses and loss adjustment expenses hampers the estimation process and increases the risk of material misstatement of liabilities and expenses reported in the financial statements.

Status of Finding 2008-03 – Unresolved

Although significant progress had been made in this area by year end and subsequent to December 31, 2009, including development and implementation of monitoring procedures over claims processed by outside services providers as well as litigation claims, our procedures noted certain exceptions during our testing which included claims processed throughout the year. See current year findings 2009-03 above.

Finding 2008-04
Noncompliance with State Eligibility Requirements

The Company did not follow state law to ensure that all applicants were eligible to be insured by Louisiana Revised Statute (R.S.) 22:2302(A) which provides that any person having an insurable interest in insurable property and who has been denied coverage by one or more insurers authorized to write property insurance in this state is eligible to apply for insurance through the Company directly or through a representative. R.S. 22:2302(A) further provides that every application form shall require that the applicant disclose each insurance carrier who denied property insurance coverage to the applicant.

During our test of direct written premiums, 35 applications for policies written in 2008 were reviewed. Of these 35 applications, 11(97%) did not disclose on the application that the applicant was denied coverage or list each insurance carrier who denied property insurance coverage to the applicant. "No" was checked on the applications for the question "Has insurance been cancelled, declined, or non-renewed in the voluntary market?"

Management expressed that it did not have the means to implement a control to ensure compliance with this provision. Failure to ensure that all policyholders are eligible to be insured by the Company causes it to be in noncompliance with state law and could result in policies being issued to ineligible applicants, which could lead to payment of losses to an ineligible insured. This also increases the risk of misstatement of premiums earned and claim losses on the financial statements. In addition, the legislation creating the Company explicitly states that the legislature intends for it to work to reduce the number of policy holders until the Company is no longer needed. If the Company issues coverage to those who could get coverage elsewhere, then legislative intent for the Company to be the insurer of last resort would not be met.

Management should ensure that policies are issued only to those applicants whose application information demonstrates eligibility for coverage as prescribed by state law. Management concurred with the finding and provided that the new policy management system that will be installed in the spring of 2010 will prohibit the issuance of new policies to property owners who have not been denied coverage by another company.

Status of Finding 2008-04 – Partially Resolved

The new EPIC system mentioned above was implemented in March of 2010 and requires a decline from another insurance company in order to complete an application for the Company's policy. The Company expects to have all personal line policies, which is the majority of the policies written by the Company, fully transitioned to the EPIC system by April 1, 2011. The commercial line conversion will follow and is expected to be completed by the end of 2011. See current year Finding 2009-05 above.

Finding 2008-05
Uncertainty in Premiums Receivable

The Company did not adequately support premiums receivable. The Company could not provide an accurate and complete aging of premiums receivable, and the results of our tests indicate an uncertainty of the premiums receivable (uncollected premiums) balance at December 31, 2008. Good business practices require that accurate and complete financial records be maintained to ensure that the amounts recorded in the financial statements are materially correct.

The Company uses its LPMS to process and record premium transactions. However, because of the limitations and unreliability of LPMS, The Company contracted with a computer consultant to design the Louisiana Citizens Data Mart (Datamart) as a method of obtaining data from LPMS. Datamart reports are used to create the manual general ledger entries to generate financial reports. The aging of uncollected premiums was also determined using the Datamart. Management reported admitted premiums receivable of approximately $23.4 million.

During our testing of admitted uncollected premiums at December 31, 2008, 24 transactions totaling $413,313 were examined. For seven of 24 (29%) transactions tested, the premium balance outstanding at December 31, 2008, was overstated in total by $309,508. Upon further evaluation of the exceptions, the following deficiencies were noted:

- In five exceptions noted above, all or part of the premium payments totaling $225,636 were removed (suppressed) from the receivables balance. While generating the aging of premiums receivable, the computer consultant erroneously removed premium payments thought to be duplicate payments. A total of $960,345 in premiums payments were removed from the premiums receivable balance, which resulted in an overstatement to premiums receivable of $960,345. The monies were appropriately deposited into the Company's accounts.

- In two exceptions, the premium balance in the aging report was incorrect and there should have been no balance (zero) at December 31, 2008. The computer consultant generates the aging report by pulling the balance from the LPMS policy balance table. When a change is made to the premium amount via an endorsement, LPMS does not process the amounts correctly in the policy balance table, which Datamart uses to create the aging report. Auditors could not determine why LPMS is calculating the amounts incorrectly in the table and therefore cannot determine the extent of the misstatement.

- For one exception, the balance in the aging report was incorrect; the balance should have been zero at December 31, 2008. When a renewal policy cancels before the effective date of the policy, the Company refunds the entire premium and fees paid by the applicant. However, for such an event, the emergency assessment fee does not zero out in the LPMS policy balance table, which results in a false receivable in the amount of the emergency assessment fee. In each case, the receivable amount should be zero. Based upon the available information, auditors could not determine the extent of the misstatement.

Failure to maintain an accurate and complete aging of premiums receivable has resulted in an uncertainty of the premiums receivable balance reported on the financial statements at December 31, 2008. This increases the risk of material misstatement of premiums receivable on the financial statements.

Status of Finding 2008-05 – Resolved

Finding 2008-06
Inaccurate and Incomplete Annual Fiscal Report

The Company did not submit an accurate and complete Annual Fiscal Report (AFR) to the Division of Administration for the fiscal year ended December 31, 2008. As authorized by R.S. 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP) prescribes the content and format for the preparation of each entity AFR, which is then used in the compilation of the state's

Comprehensive Annual Financial Report (CAFR) in accordance with accounting principles generally accepted in the United States of America. Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed the Company's AFR submitted to OSRAP in September 2009 included the following errors and omissions:

- Assets and liabilities were understated by $76,227,692 and had to be increased to report reinsurance receivable as an asset as required by generally accepted accounting principles, instead of netting it against liabilities.
- Assets and liabilities were overstated by $47,234,072 as the Company incorrectly included inter-fund balances due to and from other funds. These inter-company accounts should have been eliminated from the combined financial statements.
- Assets and liabilities were overstated by $7,847,305 because of an erroneous adjustment made by the Company as part of a prior period adjustment.
- Current liabilities were overstated by $6,668,920 as the Company recorded current liabilities for collections of emergency assessments on its own policies. In addition, current assets were overstated by $2,774,363 and revenue was understated by $3,894,557 as the Company failed to reduce receivables and increase revenues for the emergency assessment collections.
- Assets and revenues were overstated by $960,344 as the Company's computer consultant erroneously removed premium payments thought to be duplicate payments causing the payments not to be reflected in the financial statements.
- The Company did not report $48,150,000 for the current portion of the bonded debt as current payable. The entire amount of bonded debt was reported as a long-term liability.

- The Company failed to report net assets as restricted for debt service of $74,322,314 and invested in capital assets net of related debt of $5,161,302. These amounts were incorrectly included in the unrestricted net asset amount.

- Revenues were overstated by $7,847,305 as the Company included a transaction in prior period adjustments that should have netted to zero, but instead created $7,847,305 current year revenue. In addition, the Company included an additional $4,161,064 prior period adjustment that was in error. The Company incorrectly included a line item on its operating statement for prior period surplus adjustments, which should have restated the beginning net assets account balance.

- The account "Net assets at beginning of the year, restated" was understated by $14,887,127 as the Company recorded transactions that affected beginning net assets as change in allowance for doubtful accounts and prior period surplus adjustments.

- The Company recorded $6,677,528 separately, as change in allowance for doubtful accounts, instead of netting it against premiums earned.

- Prior period adjustments were not disclosed in the prior period adjustments note of the AFR (note AA) but were instead described in the accounting changes note of the AFR (note N).

- Operating revenues of $7,924,541 were reported as non-operating revenues.

- Operating revenues should have reported premiums earned of $282,311,752, less premiums ceded of $96,549,785. Instead the Company reported net premiums written (direct less ceded) of $162,135,619 and changes in unearned premiums (direct less ceded) of $23,626,348.

- The Company recorded a Service Provider Fee payable of $6,548,606 separately, instead of allocating the portion related to unpaid loss adjustment expenses to the loss and loss adjustment expense liability and the portion related to unpaid underwriting expenses to the accrued expenses, taxes, licenses, and fees liability.

- The Company's Statement of Cash Flows included numerous adjustments; did not use the correct amount of operating loss, which should have agreed to the amount reported on the Statement of Revenues, Expenses, and Changes in Net Assets, in the reconciliation of operating loss to net cash used by operating activities; and reported five amounts totaling $2,667,349 as noncash activities for items that were cash transactions.

In addition, to these errors noted, two other areas of concern were identified and are described as follows:

- The Company did not verify the completeness and accuracy of premium and policy data during 2008. As noted in the prior auditor's fiscal year 2007 audit finding titled "Premiums & Claims," the Company did not have a testing, balancing, and reconciliation function in place for the premium and claims cycles. The Company did not use the Operational Reporting and Balancing System (ORBS) to independently balance and reconcile data until June 2009, after the Company's statutory financial statements had been prepared, and approximately six months after the end of the year.

- The Company did not correctly account for the financing arrangements on the settlement of a legal claim during 2008. The December 31, 2008, financial statements include a current (short-term) receivable for $15,000,000, which is not correctly classified and reported. The recorded receivable has not been received as of December 11, 2009. The Company did not report the settlement funds as amounts held in trust in the custody of the court. The settlement funds (which include the $15 million recorded as a receivable) should have been reported as restricted assets held in trust, with off-setting liabilities for the amount of the settlement losses to be paid. The Company did not recognize the activity of the court during the year, if any, which affected the balance of the settlement funds at December 31, 2008. If funds, such as the $15 million the Company recognized as a receivable, would have appropriately reduced the unfavorable outcome to the Company, such transaction should have been recorded as a reduction in the payable of the funds in trust, not as a current receivable.

The Company's personnel made miscalculations, misclassified transactions, excluded transactions, incorrectly adjusted prior year amounts, and used inaccurate data in their preparation of the financial statements and the notes to the financial statements. In addition, the supervisory review process was not effective in identifying the errors and/or omissions in the current and long-term claims liabilities and related notes to the financial statements. Failure to submit an accurate AFR can delay the compilation, issuance, and accuracy of the state's CAFR. Furthermore, misstatements from errors or omissions may occur and remain undetected.

The Company's management should ensure that its AFR is properly prepared and should review the financial information and note disclosures in its AFR to identify and correct errors before submitting it to OSRAP and the legislative auditor.

Status of Finding 2008-06 – Resolved

Finding 2008-07

December 2008 Rate-Filing Did Not Comply With State Law

The Company's December 2008 rate-filing did not comply with all requirements in State law. R.S. 22:2303 prescribes the requirements for the board's role in rate setting; the commissioner of insurance's role in rate-setting; the frequency of rate changes; the noncompetitive nature of the rates; and the actuarial requirements of the rates. The Company's rates are not intended to compete with private insurance company rates and must be at least 10% higher than those of the largest insurers with certain exemptions.

As described in the Performance Audit Division's report *Louisiana Citizens Property Insurance Corporation 2008 Rate-Filing* issued May 13, 2009, several aspects of law were not complied with in the December 2008 rate-filing. In October 2008, the Company submitted a rate-filing to the commissioner requesting an overall average rate increase of 13.7%.

The Company paid approximately $104,000 for an actuarial consultant to assist in its rate determination and used that information in its initial rate-filing. The commissioner notified the Company's management that he would not approve the actuarially indicated rates because of pervasive data integrity issues and other deficiencies in the actuarial analysis. Then, without board approval, the Company's staff submitted a revised rate-filing with a lower average rate increase of 7%, which was then approved by the commissioner and subsequently approved by the board. Since the board did not pre-approve the formulas used by the Company's staff in setting the revised rates, the board did not fulfill its statutory duty of adopting rate-setting formulas before determining rates.

The Company used the market survey conducted by the Department of Insurance in setting its rates without evaluating the responses from the surveyed companies. Consequently, the Company could not have determined if the information was reliable. Because the actuarial information was not used and the survey responses were not evaluated, this process may have inappropriately resulted in noncompetitive rates in noncompliance with state law.

As recommended in the Performance Audit, the Company's board should vote to adopt rate-setting formulas before determining rates. The Company's management should perform its own market survey for future rate-filings or obtain and evaluate survey responses from the Department of Insurance if the department does the survey. The Company should ensure that its rate-filings are actuarially justified as required by law to further ensure they remain noncompetitive. Management concurred in part with our finding noting that it agreed the Company's board needed to review and approve rates and rating formulas before their effective date. The Company's management disagreed that the commissioner disapproved the actuarial data because of "pervasive data integrity issues," and provided that instead, the commissioner's disapproval was that the data was unaudited at that time.

Status of Finding 2008-07– Resolved

Finding 2008-08
Noncompliance with Policy Take-Out Program Requirements

The Company did not comply with the requirements of R.S. 22:2314 regarding the required depopulation of the Company's policies referred to as the Policy Take-Out Program. R.S. 22:2314 provides that the legislature created the Company to operate insurance plans as a residual market for residential and commercial property and intends that the Company work toward the ultimate depopulation of these residual market plans. The Policy Take-Out Program was developed to encourage the depopulation. The statute requires that at least once per calendar year, the Company shall offer policies for removal to the voluntary market in bundles of at least 500 policies, which include both Coastal and FAIR Plan policies. The

Company shall include policies in the bundle with geographic and risk characteristics that serve to reduce the exposure of the corporation. Each insurer in Louisiana admitted to write residential or commercial policies who desire to participate must submit a take-out plan to the Company. An insurer shall not be qualified to submit a take-out plan unless that insurer is admitted to write homeowners or commercial insurance in the state of Louisiana. The Company must submit the plans to the Louisiana Department of Insurance (DOI) for review and approval. If the plan is approved by DOI, the Company shall submit the plan to its board. The Company's board shall develop guidelines for the program and file these with the Senate and House committees on Insurance and the commissioner of insurance for approval. The Company conducted two rounds of depopulation in 2008, resulting in seven take-out companies assuming 39,936 of approximately 170,000 policies (23%). Those policies represented approximately $68 million out of approximately $260 million in premiums (26%), which followed the policies, also reducing the Company's exposure by an estimated $9 billion.

In testing compliance with R.S. 22:2314, we identified the following noncompliance and weaknesses:

- The Company offered the total population of in-force policies for take-out but did not bundle them in any way. Instead, the take-out companies were given a database of the policies and allowed to selectively determine the policies each company wanted to assume. The Company then contacted the insurance agents, or producers, to obtain approval to assume those policies. Consequently, The Company failed to comply with specific bundle criteria outlined in the revised statute that included offering policies in bundles that represented the geographical and risk characteristics of its overall population of policies.

- Although 75,683 (45%) of the Company's in-force policies had been selected by take-out companies, only 39,936 (53%) of those policies were actually depopulated. The Company interpreted R.S. 22:23 (Exclusive use of expirations) to mean that a policy could not be depopulated unless authorized by the insurance agent. This interpretation may have caused a lesser number of policies to be depopulated since R.S. 22:2314 has no language requiring an insurance agent's authorization.

- The Company did not collect and submit to DOI any formal take-out plans from interested insurance companies as required by R.S. 22:2314. Compliance with this requirement would have ensured that all seven companies that participated in the two rounds of depopulation would have met the eligibility criteria described in the statute. As a result, one company that was not admitted to write policies in Louisiana and another company that did not have a financial rating were allowed to participate and assume 12,382 (31%) of the 39,936 policies.

- The Company's board did not prepare and submit guidelines for the Take-Out Program to the Senate and House committees on insurance and the commissioner of insurance for approval.

The Company's management believes that there is a statutory conflict between R.S. 22:23 and R.S. 22.2314 and performed the depopulation process by complying with the latter criteria that could be reasonably met while complying with the constraints required by R.S. 22:23. In addition, management noted that compliance with the bundling requirement could have resulted in none of the bundles being selected since each bundle would likely include "unwanted" policies. However, since R.S. 22:2314 is specific legislation related to Louisiana Citizens-only, there is no statutory language in R.S. 22:2314 cross referencing R.S. 22:23, and R.S. 22:2314 is a more recent expression of the legislative will, the latest statute would prevail. The fiscal impact of the Company's noncompliance with statutory requirements and the resulting effect on premium revenues, claim expenses, and exposure cannot be determined because the number of policies that would have been depopulated if the Company complied with R.S. 22:2314 is unknown. In addition, failure to have take-out plans approved by DOI increases the risk that ineligible companies may be allowed to participate and that these companies could potentially find themselves unable to meet their obligations to the insurance agent or to the policyholder.

Also, failure to submit required Take-Out Program guidelines to the commissioner of insurance and the legislature means that there is no written documentation of approval for the procedures followed by the Company.

Status of Finding 2008-08 – Resolved

Finding 2008-09
Inaccurate Calculation of Emergency Assessments on Premium Changes

The Company did not adjust the emergency assessment surcharge on its policies accurately and in compliance with R.S. 22:2301(E). This statute requires that upon changes to a policy of insurance during the term of the policy that results in an increase or decrease in premium, the emergency assessment is to be adjusted and the amount the insurer shall owe or be owed is to be computed on a pro rata basis for the term of the policy. The Company is required to levy an emergency assessment surcharge on policies written. The amount collected is a uniform, statewide percentage that is determined annually and approved by DOI. For 2008, this was 5% of the total written premiums.

The Company did not update its LPMS until February 2009 to properly reflect the changes in statute that were effective January 1, 2008. The Company's noncompliance with R.S. 22:2301(E) has resulted in policyholders not being charged or refunded emergency assessment amounts on policy premium changes. Because of LPMS limitations, auditors could not determine the amount of the financial misstatement caused by the noncompliance

Management noted that it became aware mid-2008 that the system was not making the proper emergency assessment adjustments. However, because of the complicated nature of the calculations, the volume of transactions, and the LPMS limitations, management was not able to make any overall retrospective changes to correct the problem. Because the Company did not update its system in 2008, it placed the burden on the policyholders to discover and seek correction of the emergency assessment amount for their policies.

Management should ensure the calculation and monitoring procedures over emergency assessments result in emergency assessment surcharges that are accurate and in compliance with state law. Management concurred in part to the finding. Management acknowledged that system issues regarding emergency assessments remained in LPMS until corrected in early 2009, but believes the impact of the error is approximately $220,000.

Status of Finding 2008-09 – Resolved

Finding 2008-10
Lack of an Internal Audit Function

The Company did not have an effective internal audit function in place to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that comprise internal controls. An effective internal audit function is an independent appraisal activity within an entity for the review of accounting, financial, and other operations. The overall objective is to carry out a program of tests of the financial and operational activities and transactions to provide management with information about the effectiveness (and efficiency) of established accounting and operational policies, procedures and controls, and the extent to which they are being followed. Another objective is the prevention and detection of fraud through the performance of internal audit tests and procedures.

Management did not establish the internal audit function as a priority in 2008. An effective internal audit function could assist the Company in the following areas: (1) developing and testing information technology controls; (2) establishing and testing financial reporting controls; (3) testing compliance with applicable laws and regulations; (4) monitoring service providers; and (5) identifying significant risk areas. Failure to establish an internal audit function increases the risk that the Company's assets are not safeguarded and its policies and procedures are not uniformly applied.

Management should establish an effective internal audit function to ensure that assets are safeguarded and that management's policies, procedures, and controls are applied consistently in accordance with management's intentions. Management concurred in part with the finding.

Management noted that the Company has made progress in developing formal written policies and procedures and internal controls and will continue to examine the benefits of a formal internal audit function.

Status of Finding 2008-10 – Resolved

During the first quarter 2010, the Company began development of an internal audit function which was implemented during the second quarter 2010. Testing will be completed in all significant areas on a periodic basis and results reported directly to the Company's audit committee.

Finding 2008-11
Inadequate Program/System Change Controls

The Company lacks adequate control over changes to its information technology (IT) programs and systems. Good internal controls would require that management monitor change requests to IT system applications and ensure that program changes are properly evaluated, prioritized, authorized, documented, monitored; and tested prior to implementation. In addition, the roles, tasks, and responsibilities of service providers and customers should be defined; logs of all program/system changes should be maintained; and program changes should be moved into production only when approved by management and persons independent of the programmer.

Audit procedures identified the following:

- The Company has not properly segregated duties over changes to programs and systems and has not provided proper oversight and review of these changes. The two vendors who maintain the *LPMS, Operational Reporting and Balancing System (ORBS), and Datamart have the ability to* make changes to source code and data and can have those changes moved into production without the Company's knowledge.

- The Company does not have formal documented procedures in place to ensure that all changes to its systems and data are authorized, prioritized, planned, tested, reviewed, and approved prior to moving into the production environment.

- The Company and its vendors do not adequately document reported problems and related system changes and do not close all problems or change orders with documented evidence of resolution.

The Company has not placed sufficient emphasis on the creation, documentation, and enforcement of formal change control procedures. The lack of program/system change controls increases the risk that vendors may make unauthorized, erroneous, malicious, or fraudulent changes to programs or data and move those changes to production without the

Company's knowledge; data errors and system downtime may occur because of inadequate planning, testing, and review of changes; and changes to systems, programs, or data may not be known, understood, or reparable by anyone except the person making the change. In addition, without current contractual agreements, the Company is unable to require these vendors to follow formal policies and procedures.

The Company's management should implement procedures to ensure changes made to key programs and systems are appropriately authorized, prioritized, planned, developed, tested, reviewed, approved, and documented. In addition, management should require complete documentation of all reported problems and change requests, monitor the progress, and ensure timely and documented evidence of resolution. Management responded that all program changes are reviewed, tested, and approved before changes are made to the system; there were no unauthorized changes; and the LPMS policy management system does not provide adequate requirements for separation of duties.

Status of Finding 2008-11 – Unresolved

The Company has outsourced coding requirements to third party vendors. As such the vendor controls in this area should be considered critical to the Company's IT operations. This documentation has not been provided by the vendors. The Company should establish controls requirements for each of the vendors involved and conduct its own audits or request the vendor obtain independent third party independent evaluations. This should be accomplished as soon as possible.

The Company's operating system updates will be controlled by Windows Update Server however this process is not yet complete. A haphazard sample of 10 workstations was selected to review update status for security patches. Three of the 10 workstations had not been updated for greater than 60 days and 1 of the 3 was greater than 180 days. The Company should finalize WSUS implementation.

During testing we noted workstations have not been properly updated with the latest patches and updates from Microsoft. The Company should finalize the setup of WSUS to push and monitor operating system updates.

A change and patch management policy is integral to maintain control and configuration changes for not only the core application systems, but the hardware and operating systems they reside on. Stable and managed production environments require that implementation of changes be predictable and repeatable, following a controlled process that is defined, monitored, and enforced. We evaluated program and system change controls for both applications and operating systems.

See current year Finding 2009-02 above.

Finding 2008-12
Inadequate Controls for Securing and Monitoring Systems

The Company has not implemented appropriate controls for securing and monitoring its systems. Good internal controls include policies for application security and availability requirements in response to identified risks; performing security monitoring and periodic testing to minimize and identify security weaknesses and incidents, as well as evaluating their potential impact; and developing and maintaining password requirements that would improve security over its systems.

Audit procedures identified the following weaknesses:

- The Company has not configured its systems to ensure that login requirements for LPMS, Fiserv, and its internal network are adequately complex to help prevent inappropriate access. In addition, the Company has not prohibited the sharing of user IDs and passwords.

- The Company has not formally determined what data should be classified as sensitive and has not protected such data by using accepted security techniques.

- The Company has not appropriately granted and monitored remote access to its internal network. No formal process exists for authorizing remote access, which leads to the lack of an audit trail.

- The Company has not monitored logs within LPMS or Fiserv for unauthorized access to its systems or unauthorized changes to key financial data.

- The Company has not implemented a security awareness program that would inform and train users regarding current information security risks.

The Company's management has not placed sufficient emphasis on information security. The Company has not committed resources to sufficiently manage password changes, monitor its networks, and identify and protect sensitive data. Without proper controls for securing and monitoring its systems, the Company's systems may be susceptible to unauthorized access and changes, as well as theft or destruction of the Company's data without detection. In addition, management may not be able to hold users accountable for unauthorized use of an ID.

The Company's management should require that passwords for all systems meet industry standards for complexity, expiration, and login attempts and disallow the sharing of user IDs. Management should also establish a data classification policy to identify and protect sensitive data; ensure remote access is appropriately authorized and monitored; review access log reports for both Fiserv and LPMS on a regular basis to search for inappropriate or unauthorized changes to data; and implement a security administration function. Management described corrective action plans relating to implementing a new, more complex systems access process, adding levels of security to remote access and publishing formal written IT security policies. Management stated that the Company does not capture sensitive policyholder data. It also expressed that remote access was limited to senior management and technical support.

Status of Finding 2008-12 - Unresolved

Perimeter security is conducted and maintained by Venyu. Currently there is no regular monitoring of the external firewall by Company personnel. The Company places reliance on Venyu to notify the Company of security events however, Venyu is not under contract to provide monitoring services but will notify the Company in the event of an observed intrusion. This does not provide adequate monitoring and response to external threats.

The Company should develop, disseminate, and periodically review and update a formal documented security awareness and training program that addresses purpose, scope, roles, responsibilities, and compliance. In addition to the general data security training and awareness, programs can also be developed for particular applications.

Finding 2008-13
Lack of Contracts for Information Technology Services

The Company did not have contracts in place during 2008 for services rendered by information technology vendors, I.T. By Design (ITBD) and 14 Integrated Services (I4). The Company paid ITBD approximately $2.5 million and 14 approximately $558,000 for services between January 2008 and May 2009 without contracts for either vendor.

Good business practices, including those governing information technologies, require contract expenditures to be paid based on the terms and conditions of an approved, written contract. In addition, the roles, responsibilities, and expectations between the contracting parties should be well-defined, and a process should be established to monitor service delivery to ensure that the vendor is meeting current business requirements and that performance is acceptable. Contracts with service organizations should include provisions to require the vendors to provide reports on policies and procedures placed in operation and tests of operating effectiveness in accordance with SAS No. 70 (SAS 70, Type II report).

The Company did not take adequate measures to ensure that information technology service contracts were current and applicable to the ongoing business of the Company after its separation from the Property Insurance Association of Louisiana (PIAL). The lack of contracts with information technology vendors prevents the Company from measuring/monitoring the services provided by the vendors with deliverables included in a defined, agreed-upon service agreement. The lack of an agreement increases the risk that the vendor may make unauthorized changes to systems and data that are not in accordance with a mutually understood agreement. This further allows the vendors to have less accountability and exposes the Company to a lack of recourse if vendors do not perform or perform improperly.

The Company's management should develop written contracts with all of its information technology vendors and include a clause requiring a SAS 70, Type II report when the vendor is a service organization. Management noted that a valid contract was in place in 2008 for 14 and that ITBD was honoring and working with the Company under the original PIAL contract.

Status of Finding 2008-13 – Resolved

Finding 2008-14
Inadequate Documentation of Information Systems

The Company does not have adequate current documentation on the design and functions of its critical IT systems. The IT systems were developed by vendors specifically for the Company, including the LPMS, Datamart, and ORBS. In addition, Company management and personnel are critically dependent on vendors to manage, operate, and maintain LPMS and Datamart because of a lack of knowledge transfer between the vendors and the Company. LPMS is the Company's main system for supporting its insurance operations. The Company uses the vendor-developed Datamart as a method of obtaining data from LPMS to develop its manual general ledger entries. ORBS is another vendor-developed system used by the Company to independently balance and reconcile LPMS data to the Datamart.

Although the Company is very dependent on its vendors for its IT systems, the vendors were not required to obtain SAS 70 (service organization) audits to provide the Company with some assurance that adequate controls were in place for those contractors. In fact, management did not have current contracts with these vendors. The primary vendor maintaining LPMS has refused to sign a contract. Efforts to sign a contract with this vendor only appear to have been made after the auditor brought the issue to the Company's attention. The lack of current contracts means that the vendors could abruptly stop providing services and the Company would not be able to manage its own data.

Control and management objectives over IT systems require that software should be developed in accordance with design specifications, development and documentation standards, quality assurance requirements, and approval standards and that a management plan should be implemented and include documentation of the roles, responsibilities, procedures, documentation requirements, appropriate systems documentation, and guidance that is appropriate for personnel with varying levels of skills and experience. Also, critical reliance on vendors for basic system knowledge should be minimized.

The Company's staff could not provide the auditors with updated or complete documentation of LPMS, Datamart, and/or ORBS, which are key systems, relied on for internal control over financial reporting. The Company has no process in place with regard to the production of user documentation, operations manuals, and training material for LPMS, Datamart, or ORBS. Also, there are no current data dictionaries for LPMS or Datamart on hand.

- The technical LPMS manual provided to the auditor has been a "draft" version since 2005 with no evidence of management review, edit, or approval. In addition, The Company lacked current documentation explaining security roles and profiles and their appropriate assignments to users in LPMS.

- The original documentation given to the auditor for the Datamart consisted of a "Process Flow Diagram" flowchart that was over 11/2 years old. The flowchart did not represent the current configuration of the Datamart for 2008.

- The ORBS executive and project overviews and related database table schematics do not accurately portray the current use of the ORBS database.

The Company has not adequately trained its IT personnel to manage, operate, and maintain LPMS or Datamart without substantial vendor assistance. The lack of documentation and knowledge of its own systems, as well as no contracts, leaves the Company vulnerable to losing control and availability for those information systems in the event a vendor no longer agrees to provide services to the Company.

Without proper system documentation and knowledge, the Company may be unable to determine the nature of data, IT controls, or programs that are critical for its financial reporting needs. As a result, the IT function may not adequately support the financial reporting process and financial reporting errors could likely occur and remain undetected.

Without proper system documentation and knowledge, especially on highly customized systems such as these, systems are subject to errors because:

- Certain control points and specific tables/data are not identified.
- Risk assessments and vulnerability assessments have not been adequately performed.
- A transfer of knowledge and training has not occurred.
- Output and reports are not sufficiently defined
- Security roles, profiles, and their appropriate assignments to users have not been clearly interpreted or maintained.
- Data could be manipulated without management's knowledge by both the vendor and the Company's staff who have inappropriate access.

The Company's management should develop a process and dedicate the necessary internal resources for maintaining up-to-date system documentation, such as operation manuals, training materials, data dictionaries, and other documentation. Management should also provide training to its personnel sufficient to keep LPMS and Datamart operational in the event vendors no longer provide their services. The Company's management should ensure its vendors maintain proper internal controls and current, detailed documentation on all systems and related changes. This documentation should be readily available to necessary Company personnel, auditors, and other appropriate individuals. Current contracts should be obtained for all vendors and SAS 70, Type II audits should be required for all vendors who are service organizations. Management concurred that system documentation was inadequate. Management expressed that it would not be prudent to use Company personnel to document systems that are scheduled to be replaced.

Status of Finding 2008-14 – Partially Resolved

This finding still exists for DataMart. While LPMS is scheduled to be taken out of service in 2010, the Company should require i4 to properly document the code for DataMart. See current year Finding 2009-01 above.

Finding 2008-15
Lack of Information Technology Policies and Procedures

During 2008, the Company lacked the following policies and procedures concerning its use of IT:

- A logical access policy with standardized procedures for the issuance, revocation, and periodic review of system and network user IDs;
- A physical access security policy;
- A policy that classifies data for confidentiality, integrity, availability, and retention requirements;
- An acceptable usage policy defining appropriate business use;
- A network policy and "remote access" policy for granting outside users access to the internal network;
- A policy for IT procurement.

According to Control Objectives for Information and Related Technology published by the IT Governance Institute, entities should:

- Develop and communicate policies and procedures to ensure the achievement of IT objectives and awareness of business and IT risks;
- Establish and maintain IT security roles and responsibilities;
- Establish data ownership, define appropriate security levels and protection controls, and define data retention and destruction requirements;
- Develop and follow a set of procedures that is consistent with the organization's overall procurement process to acquire needed IT-related infrastructure, hardware, software, and services.

Management has not placed sufficient emphasis on the creation and enforcement of IT policies and procedures. Without appropriate IT policies and procedures, there is an increased risk that management (1) may grant inappropriate access to its systems, data, and physical assets; (2) is not effectively managing and safeguarding the confidentiality, integrity, and availability of data; and (3) may not timely and cost-efficiently acquire IT services and/or equipment. In addition, inadequate IT policies and procedures could also result in a lack of recourse if a negative event would occur.

Company's management should develop, implement, and follow appropriate IT policies and procedures and make them available to appropriate Company personnel. Management expressed that the Company does have IT policies and procedures and is in the process of strengthening and documenting those IT policies and procedures

Status of Finding 2008-15 – Partially Resolved

The Company is in the development process for all IT polices. Drafts and templates of IT polices were reviewed. The drafts and templates are adequate but require alignment with the Company's practices and procedures. A two person team has been established to complete these policies and procedures for presentment to management for approval.

Discussions with the team for review purposes and prioritization of policy completions was conducted. The team appears to be qualified and understands the urgency of policy completion. The Company has created the following schedule for completion of policies and procedures:

Policy	Completion date	Management or board approval
ITSD103 Media Storage	Q2	Q2
ITAD105 TCP/IP Implementation Standards	Q2	Q2
ITAD106 Network Infrastructure Standards	Q2	Q2
ITSD102 IT Security Plan	Q3	Q3
ITSD104 Disaster Recovery	Q3	Q3
ITSD106/ITSD109 IT System Access	Q3	Q3
ITAD107 Computer, Email, Internet Usage	Q3	Q3
ITSD107 IT Security Audits	Q4	Q4

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September 22, 2010

Members of Management
Louisiana Citizens Property Insurance Corporation
433 Metairie Road, Suite 600
Metairie, LA

In planning and performing our audit of the financial statements of the State of Louisiana Citizens Property Insurance Corporation (the "Company") as of and for the year ended December 31, 2010 (on which we have issued our report dated September 22, 2010), in accordance with auditing standards generally accepted in the United States of America; we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2010, on our consideration of the Company's internal control over financial reporting and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

During the course of our audit, we noted certain immaterial matters of control over financial reporting and compliance or other matters that we would like to present consideration by those charged with governance.

Lack of Policy and Procedures Related to Capital Asset Impairment

During our audit procedures, we noted that the Company did not have a formal process in place to evaluate capital asset impairment.

To strengthen internal controls, we recommend that management implement policies and procedures to ensure that fixed assets reflect the existing business circumstances and economic conditions in accordance with the accounting policies being used. Furthermore, management should periodically review the valuations and/or realizability of fixed assets to identify permanent impairments and to properly record such.

Company Response:
The capital assets on the Company's balance sheet represent .2% of our total assets. Our policy is to expense all asset purchases less than $5,000 and so the only capital assets on our balance sheet are our telephone system, our policy administration system, and a few servers. We scrap assets that are no longer in service, but based on the small amount of assets we capitalize, we do not believe it necessary to have a formal asset impairment policy.

Lack of Inventory for and Policy and Procedures Related to Capital Assets

During our audit procedures, we noted that the Company did not have an inventory of all property owned or a formal process in place to explain the steps that should be followed in tagging items, which items should be tagged, how the inventory should be catalogued, who is responsible for maintaining the property inventory, how often it is required to be updated, how additions and deletion should be treated and other matters required pursuant to Title 34 part VII, Chapter 3 of the Louisiana Administrative Code.

We recommend that management implement procedures to ensure that assets are tagged and inventoried as required by the state so the Company is in compliance with Title 34 of the State Administrative Code. Furthermore, to strengthen internal controls, we recommend that the Company develop policies to document the procedures that should be followed and the person(s) designed to be responsible to complete the procedures and review the procedures so that a clear record exist as to the existence and economic condition of assets held by the Company. Such procedures will reduce the likelihood of theft and fraud and strength the Company's control structure.

Company Response:
The Company has a policy that governs the dollar thresholds of assets expensed and assets capitalized. In 2010 we completed a physical inventory of all our assets.

Lack of Controls Over Administering and Monitoring User Access

User Administration - CRI evaluated if procedures exist and are followed to ensure timely action relating to requesting, establishing, issuing, suspending, modifying, and closing user accounts to include:

- New user accounts in the network, application, and database environments are set up in response to properly authorized requests from management.
- When user access rights or modifications (due to job transfers or other reasons) occur, the access rights of these users are reviewed in order to remove access rights that are no longer needed. Additional access rights are granted in response to properly authorized requests from management.

Requesting/Issuing/Establishing/Modifying Users- (Network and applications) a sample of 5 new users was selected from a population of 10. All users had documentation completed by HR.

Suspending/ Removing Users- 6 Users were terminated from 1-1-2009 to present. All users had requests for termination.

Termination of Users- User access rights are removed or suspended in a timely manner when employees are terminated. Standards exist to define timeliness requirements for various situations (i.e., voluntary or involuntary termination).The current system does not allow a removal time calculation to be made. Best practices are removal within 24 hours.

We recommend the Company document the flow and approvals for requesting, establishing, issuing, suspending, modifying, and closing user accounts is critical to controlling access to computer systems. A well documented process initiated by HR decreases the risk of error in approvals as well as prompt implementation of changes to user access. HR should provide initiation and completion verification and act as a central point of checks and balances for completion of these tasks. While Citizens has implemented access documentation through HR the documentation should be improved to evaluate all access controls and user rights. The documentation should be improved to properly identify *all* systems access required and roles requested and approved. In addition dates and initials to provide information to properly audit terminations and removal times should be added.

CRI reviewed access controls for the following systems:

<table>
<tr><th>System</th><th>Comments</th></tr>
<tr><td>FiServ-Pro Financials</td><td>The system will allow passwords of 1 character. In addition the program does not require regular password changes. This should be considered a high risk and reviewed by inquiry of each user to ensure proper password complexity is used and passwords are changed every 90 days.</td></tr>
<tr><td>LPMS (Set for Retirement)</td><td>LPMS uses both role based and "job title" base to segregate user access. User access is granted by LPMS by request of LCPIC. The system is set for retirement in 2010. A SAS70 has not been completed by LPMS for this system. Due to system retirement it will be difficult to have the vendor complete a SAS70 at this time. LPMS access controls can only be tested using an "as of" date. The system access controls cannot be properly evaluated for the 2009 year. As a result the financial auditors will evaluate manual compensating controls in these areas. The LPMS access controls were evaluated in May 2010 by CRI. Although the system is set for retirement it will be in use until the EPIC system is fully operational. We have informed Management controls should be implemented in all systems going forward to properly maintain and evaluate user access. Current controls in place at ITBD were requested. LCPIC personnel completed a process for removal of rights for all accounts including high risk accounts to provide those rights only to individuals which are required to complete their job functions. We noted the following items which should be addressed by management.

High risk access roles - SBS-Consultants- Can approve a check for any amount. All users and all roles with job titles were obtained.
We noted seven (7) accounts with this role. Inquires were made as to the validity and need for these accounts. The following information was provided updates are appropriate.
<table>
<tr><th>Username</th><th>Date added</th><th>Explanation</th></tr>
<tr><td>catloss</td><td>10/20/2008</td><td>This has been deactivated 5/12/2010</td></tr>
<tr><td>CCMelancon</td><td>8/16/2007</td><td>Since all other users were removed LCPIC kept in case a task was not able to be completed by another user. Would be able to verify what task was and assign that task to new role.</td></tr>
<tr><td>crishelpertool</td><td>8/8/2006</td><td>Since all other users were removed LCPIC kept in case a task was not able to be completed by another</td></tr>
</table>
</td></tr>
</table>

		user. Would be able to verify what task was and assign that task to new role.
ericahelpertool	1/4/2008	This role has been changed to Helper Tool 5/12/2010
LPMS_System	1/4/2008	lpms_system login needs to stay with the role of "SBS-Consultant" because this user is used for all of the nightly processing applications such as: Batch Print, Accounting Console and the FTP Transfer process.
pennyhelpertool	9/26/2005	This role has been changed to Helper Tool 5/12/2010
apbackup	1/4/2008	This role has been requested to deactivate 5/13/2010

Claims Manager (Service Provider Claims Managers) Can approve checks that are less than $25,000 and the cumulative amount paid on the claim is less than $25,000

A listing of all service provider employees with access to LPMS was submitted to each service provider for review to ensure all users are current and active employees.

First Premium-1 user has a "Claims Manager" right that is no longer with the company. Two generic users have "Claims Manager" rights. These users should be removed.

Note: 22 of 88 users were no longer with the company but had minimal rights. These users should be removed.

24 generic user names are present. Generic users should be used with great caution and removed if not necessary.

Bankers- 3 users have "Claims Manager" rights that are no longer with the company. Two generic users have "Claims Manager" rights. These users should be removed.

Note: 51 of 134 users were no longer with the company but had minimal rights. These users should be removed.

37 generic user names are present. Generic users should be used with great caution and removed if not necessary.

"Data Entry" can request claim checks but must be approved by either the Claims Manager or Citizens Claims manger depending on the amount of the request and the total amount paid on the claim to date.

Review of high risk user titles - "Citizens Claim Manager" and "Citizens Assistant Claims Manager"- Can approve checks that are greater than $25,000.00 but less than $100,000.
Can approve checks for claims that have a cumulative paid amount on the claim greater than $25,000.

	Can approve claim checks that do not have a coverage associated with the payment. One user has "Citizens Claim Manager" title and one user has "Citizens Assistant Claims Manger" title. Per Management these users are appropriate.
Image Write	Image Write will allow blank passwords. This system should be scanned for the existence of PII data and properly secured if PII data is contained.
DataMart	Datamart access is controlled through active directory security. Reference the active directory information.
Wire/ACH	User lists were obtained directly from Regions iTreasury and Capitol One. All users are current employees and access is appropriate per Jules Nunn. iTreasury requires a password of at least 6 characters and Capitol One requires at least 6 characters of which 1 must be a number.
Active Directory	Account Policies Min password len: 8 chars Max password age: 91 days Min password age: 90 days Password history: 0 passwords-This should be changed to at least 5 Do not force logoff when logon hours expire Lockout after 5 bad logon attempts Reset bad logon count after 15 minutes-This should be increased to at least 24 hours. Lockout duration: 15 minutes Complexity-Enabled
ORBS	ORBS access is controlled through active directory. Users were examined and are satisfactory.

The Company is in the process of establishing regular user access reviews however this process is not complete. Discussions were held with management to evaluate access review procedures and schedules. Management should continue to implement and improve these reviews.

Company Response:
LCPIC has implemented written policies and procedures governing the system access for new hires, current employees, and terminations for both the Company's employees and Service Provider employees. The access is administered by our Human Resource department.

Lack of Monitoring Over Service Providers - IT Vendors

The Company relies heavily on the expertise of service providers to accomplish IT functions. These vendors have been identified below. Management is aware of the requirements for current contracts and controls evaluation of the IT vendors. Discussions with IT management were conducted for SAS 70, SSAE 16 and agreed upon procedures (AUP) report requirements from vendors. The following vendor documents were obtained to evaluate the current status of vendor contracts and documentation. All IT vendors are currently under contract.

Vendor	Service or product provided	Purpose	Due Diligence	SAS 70/AUP	Initial contract date	Accepted by
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Venyu	Data facility	Offsite processing	Per RFP	4/28/2010	2/19/2008	J.J. Wortman
Iron Mountain	Data Storage	Offsite backup storage				
IT By Design	LPMS ORBS software code and support	Software support and coding for LPMS			1/1/2010	J.J. Wortman
i4	Data Mart code and support	Software reporting tool for LPMS	Prior contracts with LCPIC 12/06/2007		4/1/2010	J.J. Wortman
FiServ	Accounting package	GL,AP,AR,	re-assigned to LCPIC on 6/26/08		3/29/2004	Paige Harper
West Point Underwriting, Inc.	Software and Conversion Support	Purchase application software for Policy and Claims	RFP		4/8/2009	J.J. Wortman
A T & T	Communications	Voice and Data including TSP Codes			8/18/2008	J.J. Wortman
Xactware	Claims Data Management	Manage claims through independent adjusters			7/30/2009	J.J. Wortman
ChoicePoint/LexusNexus	Electronic Notices	Notices to Mortgagee and Additional Insured			9/14/2009	J.J. Wortman

We recommend the Company obtain vendor documentation for controls evaluation such as a SAS70 for Iron Mountain, West Point Underwriting and i4. Furthermore, management should note the AICPA has released guidance for SSAE 16 which should be used for vendor control evaluations of IT processes. While a SAS70 has become a standard for controls evaluation for financial reporting the SSAE 16 allows controls evaluations for those controls not related to financial reporting but may have significant impact for organizations relying on controls which may not be in scope for a SAS 70. General IT controls evaluation should be requested from Iron Mountain. A request for

SSAE 16 to evaluate software development controls for West Point Underwriting and i4 should also be requested. In the absence of the SSAE 16 LCPIC should define and obtain a list of controls used by West Point Underwriting and i4 to maintain proper software development.

Company Response:
We have received SAS 70 reports for Iron Mountain and Venue. It is our intent to bring the functions currently done by I4 in house, but in the meantime, we utilize I4 as a consultant and not as a software developer. We have policies and procedures for our EPIC system and we manage and track all program changes made to the EPIC system.

Inadequate Controls for Securing and Monitoring Systems

Perimeter security is conducted and maintained by Venyu. Currently there is no regular monitoring of the external firewall by Company personnel. Company management places reliance on Venyu to notify them of security events however, Venyu is not under contract to provide monitoring services. Venyu will, however, notify the Company in the event of an observed intrusion. This does not provide adequate monitoring and response to external threats.

We recommend that the Company either enters into a contract with a third party for security monitoring of external connections or begin to monitor this in house.

The Company uses Trend-Micro for anti-virus protection. The anti-virus management console was reviewed for current definitions pull and push. A sample of 10 workstations was selected to review anti-virus settings. All samples have current virus definitions.

We recommend, as an improvement to external defense strategies, that the company should consider conducting a vulnerability and penetration test completed by an independent third party to evaluate all external interfaces.

User access controls are defined above in "**Lack of Controls Over Administering and Monitoring User Access**". The Company's IT security policies are in development and require approval. Use of shared user ids and passwords are prohibited in the reviewed draft policy to be presented for approval. During discussions with users it was noted that use of shared usernames and passwords are informally prohibited.

We recommend that new systems not require the use of personal private data (PII). However, a review of LPMS revealed the system contains legacy PII data. The Company should either remove all PII data if not required or take measures to protect such data per best practices including protection of PII data in storage, use or transit.

Remote access users are identified and appropriately restricted using Active Directory. However, reconciliations are not formalized.

We recommend that the VPN should be used to establish all remote sessions. The Company should formalize review of all remote access semi-annually. In addition, the Company would benefit greatly through implementing a formalized IT access segregation of duties process. The Company has unique challenges of access control for external service providers, IT support companies, and internal users. A matrix of access requirements, users and review processes/schedules would help ensure "least privilege access" is maintained.

Monitoring logs of LPMS is not conducted on a regular basis. However these logs are available in the event of an issue or problem. FiServ is not currently capable of tracking user logins.

The Company should develop, disseminate, and periodically review and update a formal documented security awareness and training program that addresses purpose, scope, roles, responsibilities, and compliance. In addition to the general data security training and awareness, programs can also be developed for particular applications.

Training should be conducted to include (but not limited to):

- The organization's vision and mission relating to the protection of information resources, including the importance of information security and the ways in which it forms part of critical asset protection.
- Applicable laws, regulations, policies, and procedures.
- Data classification requirements.
- Data life cycle security considerations, including limiting the data that is collected, accessed, or displayed to that which is essential for the function to be performed, data protection during usage, processing, and storage, and effective methods of disposal.
- An overview of risks and safeguards.
- Roles and responsibilities, including clear guidelines on the correct use of the organization's information and what each particular group of users is authorized to access.
- The implication of security incidents to both the organization and the individual.
- Reporting requirements and procedures for unauthorized access, disclosure, or modification of information.
- An overview of the data security incident management program, including workflow and other relevant features.

Training can be conducted in a classroom setting, remotely, and periodic issuance of security awareness literature. Training and awareness material can also be made available on internal networks that can be accessed by employees.

Company Response:
Secure Works was engaged in 2010 to monitor and notify LPMS of any system intrusion efforts. We have removed all private personal data from LPMS and do not store any private personal information in our new EPIC system. VPN is used for all remote system access to the network. the Company is reviewing options for both internal and external system risk assessment.

Lack of an Internal Audit Function

During the first quarter 2010, the Company began development of an internal audit function which was implemented during the second quarter 2010. Testing will be completed in all significant areas on a periodic basis and results reported directly to the Company's audit committee.

However, for the year under audit, the Company did not have an effective internal audit function in place to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that comprise internal controls. Furthermore, the prevention and detection of fraud through the performance of internal audit tests and procedures was not a priority.

The Company should continue to improve its operations through the development of formal written policies and procedures which includes an emphasis on a control environment with an atmosphere in which people conduct their activities and carry out their responsibilities based on a tone set by management to be control conscious people.

Company Response:
As noted by the auditors, the Company implemented an internal audit function in 2010.

Lack of Controls over Changes to Master Vendor File

During our audit procedures, we noted that an employee who was responsible for entering invoices into the Company's system for payment generation also has the authority to make additions and changes to vendor information in the master vendor file. As a result, fictitious vendors could be established and erroneously paid by one employee. When we inquired of management, they were fully aware and explained that this person worked in another department but had been given dual authority for a short period of time so that they could cross-train on the account payables system. Subsequently, all authority into this system was removed.

To strengthen internal controls, we recommend that management develop a more formalized approach which includes a process where requests to make additions to or change vendor master file data are logged; the log is reviewed to ensure that all requested changes are approved by management and processed timely. This process will help to ensure that all changes made to the master file are valid. Management should also review and approve all changes on a scheduled basis. This would catch any unauthorized processing of information and changes to systems.

Company Response:
The item noted was an isolated incident related to cross training of one employee. The Company has implemented a vendor policy that requires management approval for all changes to the vendor file.

This communication is intended solely for the information and use of the Company, Board of Governors, and members of the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC